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Report of the

Auditor General of Prince Edward Island

To the Legislative Assembly

1986

OFFICE OF THE AUDITOR GENERAL

PROVINCE OF PRINCE EDWARD ISLAND

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The Honourable Speaker and
Members of the Legislative Assembly
of the Province of Prince Edward Island

In accordance with the requirements of the Audit Act, I have the honour of presenting my annual report to the 1986 Session of the Legislative Assembly.

Respectfully submitted,

T. Kaptein, C.A.
Auditor General

Charlottetown,
Prince Edward Island
February 27, 1986

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SCHEDULES

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MATTERS OF GENERAL INTEREST

1. GUARANTEES - AN INVISIBLE DEBT?

1.1 In last year's report I expressed concerns over the approval, control, and disclosure of Provincial guarantees. An overriding concern was the lack of a proper audit trail to enable me to discharge my duties as the financial auditor of the Public Accounts.

1.2 The matter received considerable public attention as a result of media exposure and discussions before the Public Accounts Committee. The Premier stated that he would personally guarantee the matter would be resolved to my satisfaction.

1.3 I am pleased to report that I was recently provided with policies and procedures drafted by Treasury Board and approved by Executive Council. When implemented, this policy should provide a satisfactory level of internal control.

1.4 For the fiscal year ended March 31, 1985 I have taken the precaution to request each Minister to provide information on guarantees, letters of comfort, or other assurances with which he or his department may have been directly involved. This approach was followed because the Treasury Board procedures that are now in effect were of course not in force as at March 31, 1985.

1.5 Five guarantees under the Aquaculture Loan Program totalling approximately $276,000 and a $480,000 guarantee to H.C.M. Industries Ltd. were in place as at March 31, 1985 but were not disclosed in the Public Accounts.

1.6 The total guarantees in force as at December 31, 1985 has now escalated to $46 million. During 1984/85 payouts amounted to $3.5 million, mainly in connection with the default on the Convention Centre loans.

1.7 Last year I stated that "in essence, guarantees are part of the gross debt". Some corroboration of this viewpoint can be found in the Globe and Mail of January 23, 1986 where MacLeod, Young, Weir Ltd. provided per capita figures for "gross and guaranteed debt" indicating that they too see little difference between gross debt and guaranteed debt.

2. STATISTICS

2.1 Statistics play an important role in policy setting, decision-making and program evaluation, all basic processes vital to good government. In our information age much statistical data is available: International, national, regional, and provincial statistics, all of which can have an impact on the public administration. In addition, many government entities accumulate local data required for their activities, extracting them from records or acquiring them by means of surveys.

2.2 Statistics can be defined as the assembly, analysis, classification, and interpretation of data, for the purpose of measurement or quantification of a specific phenomenon. They are also important for making predictions about the future from events that happened in the past. Statistical analysis is considered a science for which special training is required. Some government departments or agencies may have reasonably qualified staff at their disposal, others have not; many cannot afford the costly expertise necessary.

2.3 Data gathering is costly and time consuming and if improperly conducted could lead to poor decisions and misdirected actions. Criteria for what makes up good statistics should be developed. Data-gathering techniques should be scrutinized. Objectives should be compared to data collected to ensure that the correct data is accumulated in the best and most economic manner. These are but a few of the many complex aspects of statistical analysis.

2.4 I suggest that a government wide review be made of statistics accumulated, data required but not now being gathered, techniques used, controls over the accuracy of data, safeguards against breach of confidentiality and other important considerations.

2.5 It makes sense to fully utilize the specialized statistical personnel available in the Economics, Statistics, and Financial Analysis Division of the Department of Finance and Tourism in this review. This Division at present already provides some assistance on request or voluntarily makes statistics available to departments when they perceive a need.

RECOMMENDATIONS

2.6 I recommend that Treasury Board in consultation with the Deputy Minister of Finance and Tourism cause a government wide review to be made.

2.7 I further recommend that Treasury Board prepare and issue an appropriate policy concerning statistical analysis and that as part of the policy, the Economics, Statistics, and Fiscal Analysis Division of the Department of Finance and Tourism be given the authority and the duty to oversee those activities government wide.

3. SALES TAX INVESTIGATION

3.1 In the 1985 session of the Legislative Assembly the Leader of the Opposition raised questions in regard to a document that was filed with the Courts pertaining to the Prince Edward Hotel and Convention Centre.

3.2 The document seemed to infer that a consultant to the Centre's owner, had confidential sales tax data and Dial the Island reservation system information at his disposal on which he based certain of his conclusions.

3.3 As a result I was requested by Executive Council to perform an investigation

3.4 As part of my investigation, I heard a number of government officials as well as private individuals, under oath, in the presence of independent legal counsel I had engaged for that purpose. As well I scrutinized records and documents that provided relevant information.

3.5 My report to Executive Council stated: "Although I was unable to obtain documentary evidence on the source of the consultant's information, I am satisfied based on my examination and the results of the hearing that it was not obtained from confidential sales tax data or Dial the Island reservation system information".

3.6 I submitted my report to Executive Council and it was immediately made public by the Premier. Copies of my full report are available from Island Information Services.

4. THE PUBLIC ACCOUNTS COMMITTEE

4.1 The Public Accounts Committee is intended to be an important part of the system of checks and balances in a democratic society. The Committee is supposed to represent the Legislative Branch as an effective counterbalance to the Executive Branch.

4.2 There are a number of factors which would contribute to the effectiveness of the Committee. Two of the more important ones are the traditional appointment of an opposition member as chairman of the Committee and planning of an agenda before the meetings take place.

4.3 At present, Prince Edward Island has the distinction of being one of only two Provinces in Canada where the Committee is not chaired by an opposition member. It is also one of only four jurisdictions in Canada that does not prepare a formal agenda for its meetings. In fact, therefore, our Public Accounts Committee does not play nearly as strong a role in the accountability cycle as it should.

5. 1986 RECOMMEDATIONS TO EXECUTIVE COUNCIL

(Consider in the context of applicable sections)

Section 28-6: Grain Elevators Corporation

I **recommend** that the now dormant Planning Committee of Executive Council be re-activated and instructed to prepare terms of reference for departmental planning and evaluation processes.

6. 1986 RECOMMENDATIONS TO TREASURY BOARD

(Consider in the context of applicable sections)

Section 2-6: Statistics

I **recommend** that Treasury Board in consultation with the Deputy Minister of Finance and Tourism cause a government wide review to be made.

I **recommend** that Treasury Board prepare and issue an appropriate policy concerning statistical analysis and that as part of the policy, the Economics, Statistics, and Fiscal Analysis Division of the Department of Finance and Tourism be given the authority and the duty to oversee those activities government wide.

Section 13-21: Department of Energy and Forestry

I **recommend** that Treasury Board review the situation and take steps to ensure that government's priorities with respect to Forestry training and industry development are appropriately dealt with by the Department of Industry.

Section 16: Civil Service Superannuation Fund

I **recommend** that the Chairman of the Treasury Board ensure that the necessary steps towards professional external investment management be completed in the near future.

Section 17-11: Capital Expenditures

I **recommend** that Treasury Board ensure the capital projects master plan is maintained as required by its system.

Section 19: Management of Travel

I **recommend** that Treasury Board include in its directive a requirement to designate one person per department to plan travel arrangements.

I **recommend** that Treasury Board identify specific hotels offering special government rates and that a list of approved hotels be made available to all departments.

I **recommend** that Treasury Board include specific time limits on obtaining and repaying advances in its directive.

I **recommend** that Treasury Board periodically analyze travel allowances to ensure that only employees qualifying under the directive receive such allowances.

Section 20: Performance Appraisal

I **recommend** that Treasury Board establish policies, procedures, and criteria for a performance appraisal process and that it provide guidelines for its administration and the design of evaluation forms.

I **recommend** that Treasury Board assess the need for the rating forms used by the Civil Service Commission and that it clearly indicate what functions must be performed by the Commission and which by the departmental staff.

Section 25-14: Computer Services

I **recommend** that Treasury Board approve a modest staff increase necessary to protect the substantial investment in computer resources.

Section 26-5: Recognition of Losses

I **recommend** that Treasury Board review all assets and contingent liabilities at the end of each fiscal year and recommend a special warrant to provide for known and probable losses.

Section 28-7: Grain Elevators Corporation

I **recommend** that Treasury Board review and improve its planning and evaluation assessment conducted during the annual budgetary process.

Section 30-6: Land Development Corporation

I **recommend** that Treasury Board review the credit standards and collection policies and procedures of the Corporation to ensure the losses are minimized.

Section 31: Hospital Services Commission

I **recommend** that Treasury Board exercise tighter control over advances to the Hospital Services Commission to eliminate the possibility of such large advances for ineligible expenditures re-occurring.

I **recommend** that Treasury Board ensure that suitable arrangements are made to recover the advance to the Queen Elizabeth Hospital.

7. OFFICE OF THE AUDITOR GENERAL

MY RETIREMENT

7.1 This report marks my last as Auditor General of Prince Edward Island, a position I have held since August 1970. It has not always been an easy time, but I take pride in having created an office, that is in the forefront of government auditing and compares favourably with any Legislative Audit Office in Canada. I have of course not been paid to be popular but have continuously strived to meet the hallmarks of my profession: maintaining my independence, more often at a personal price, while at the same time remaining fair to those under audit.

7.2 I would like to thank my staff, especially my Deputy and my senior managers, who over the years have provided me with excellent and loyal support.

7.3 I would like to take this opportunity also to thank the Premiers, Ministers - especially the Ministers of Finance - Deputy Ministers and Managers of Crown Agencies, present and past for the good working relationships afforded me, comfortable but not cozy.

7.4 I wish to especially express my respect and gratitude to the Honourable Angus MacLean, who as Premier had the foresight to sponsor a new Audit Act which recognized that Governments need to be held accountable. He had the courage to espouse an act that goes further than any in Canada and no doubt will eventually result in similar expanded duties for my collegues in other jurisdictions.

7.5 It has taken much hard work to build the Office up to its present high standards. I hope and trust that Executive Council will make a wise selection when choosing my successor and will keep its choice free from political bias.

7.6 Many people in Prince Edward Island have, over the years, expressed their personal appreciation for the manner in which I have conducted my duties. I have appreciated these compliments very much because the position of Auditor General is a lonely one, lonelier than most senior positions in government and one that by necessity often runs contrary to the wishes and desires of the Executive Branch.

STAFFING

7.8 I have over the years acquired an excellent staff. Most of them have been trained in my office and with few exceptions were recruited from the University of Prince Edward Island.

7.9 Until a few years ago, staff turnover was a healthy ten per cent, which allowed me to maintain a proper balance between graduates and students. During the last few years, in view of the repressed economic situation, I experienced little turnover and could not employ all graduates trained in my Office. This year, however, I have lost four auditors and two more are on four month pregnancy leave. The effect was that I lost two and a half person years over a one and a half year period. I regret that I have not been allowed to fill one authorized position that has been vacant for a couple of years. The argument given to me was that the financial restraint policy would not allow the hiring of "extra" staff. I would accept this argument as a valid one if indeed I required extra funds. However, the expected turnover next year will leave me with sufficient funds to hire the extra student without an appropriation for that position. I urge that the Legislative Assembly directly authorize me to fill this position.

COMPREHENSIVE AUDITING - OBJECTIVES NOT ACHIEVED

7.10 I received my comprehensive audit mandate in June of 1980. At that time I set an objective of five years to complete comprehensive audits on all departments and agencies of Government. This objective has not been met. My target was based on receiving eight additional positions. Three have been granted. Also, as explained above, I have experienced serious disruptions in staffing over the past year and a half. In contrast when the workload of the Purchasing Division increased after a new Purchasing Act was enacted, it was promptly given additional staff.

MICRO COMPUTER

7.11 In December of 1985, my Office took delivery of a micro computer. Several members of my staff are being trained and a number of useful applications have been or are being developed. I have acquired the services of a computer analyst through the staff exchange program administered by the Civil Service Commission to develop an administrative system and to help maximize our computer related opportunities.

8. SCOPE AND ACKNOWLEDGEMENTS

8.1 My annual financial audit program covers the Public Accounts of the Province, eleven crown agencies, and six special purpose funds. My comprehensive audits normally include three to four major departmental audits and a number of specially selected subjects. In addition I am still responsible for certain federal claims and I conduct special investigations when the need arises.

8.2 In both my financial and comprehensive audits, I have received good co-operation from the Ministers, Deputy Ministers, Heads of Crown Corporations and other government officials. Also, I wish to acknowledge the assistance provided by the Legislative Audit Committee in the administration of my office. Finally I wish to thank my staff for their continued support in achieving the goals of this office.

9. INTERPRETATION OF THIS REPORT

9.1 Many of my audit findings are accompanied by recommendations for improve ment. Although I expect that due consideration will be given to the underlying problems, the recommendations are in no way intended to infringe on the management rights or duties of any government official. They are merely intended to provide one possible course of action which may eliminate a weakness in control or an inefficiency. I feel that generally, my recommendations are being received in this positive light.

REPORTS ON COMPREHENSIVE AUDITS

10. INTRODUCTION TO COMPREHENSIVE AUDITS

10.1 Section 13(2) of the Audit Act establishes my mandate for comprehensive audits of departments and agencies of the Crown.

10.2 Comprehensive auditing is a broadly based auditing approach aimed at systematically reviewing and reporting on accountability relationships and on the supporting activities, systems and controls employed by management in fulfilling its responsibilities. The purpose of the audits is to ensure that objectives have been met and that the funds spent have provided value for money.

10.3 In contrast to financial auditing, no generally accepted standards have as yet been developed for comprehensive auditing. Instead, the Auditor has to rely mostly on his professional experience and judgement, supplemented where possible and, subject to the availability of funds, by expert assistance in areas outside the auditors competence. The audits at this stage primarily have covered accountability, management processes and controls.

10.4 Section 16 of the Audit Act does not specify particular reporting requirements, but subsection(d) requires me to call attention to any matters I consider necessary to be brought to the attention of the Legislative Assembly. Accordingly, I submit the results of my audits completed in 1985 in the sections following this introduction.

11. DEPARTMENT OF COMMUNITY AND CULTURAL AFFAIRS

INTRODUCTION

11.1 The Department manages a broad range of diverse activities, and opposing interests are often encountered in enforcing the regulatory provisions of 28 Acts that impact on the public.

11.2 As part of my audit I surveyed all programs and management processes, but I concentrated my audit on problems and deficiencies defined from my review. I did not elaborate on the instances of good management practices I also encountered in my audit

PLANNING

11.3 The Department does strategic planning for major issues, but does not have a formal, comprehensive, long-term plan. Past attempts to prepare one were frustrated by several reorganizations and imposed decisions, that could not have been foreseen. This is a complaint I have encountered in several audits before. A lack of comprehensive, government wide planning, an issue I have addressed on several occasions in the past, is probably at the root of this. Of course, governments in general tend to be reactive, i.e. wait until problems arise, rather than try to prevent them from occurring by establishing good planning processes. For efficient departmental management, in spite of the frustrations encountered, planning of departmental activities in my opinion is still a worthwhile exercise for the management of a department.

RECOMMENDATION

11.4 I recommend the department reconsider its position on long-term planning and implement an integrated and coordinated planning process for the entire department.

MANAGEMENT INFORMATION SYSTEM

11.5 Procedures for informing management of certain matters are in place, but a management information system, that provides decision makers with key operational information is lacking.

RECOMMENDATION

11.6 I recommend that a management information system be developed that provides timely, relevant, and accurate information to decision makers at appropriate levels.

CONTROL ON OVERTIME

11.7 Due to the nature of certain program activities many staff members are required to work overtime. I observed that adequate management practices for controlling the need for and use of overtime are not in place.

RECOMMENDATION

11.8 I recommend that management assess the need for overtime and develop controls over its use.

BUILDING AND DEVELOPMENT SERVICES DIVISION

11.9 This Division ensures that minimum standards, prescribed by Act, are met by electrical, building, plumbing, and sewage system inspections. My audit revealed the existence of differences of opinion on how problems should be dealt with. Following are some detailed observations:

- In 1983, certain staff were placed on a 10 months on, two months off work plan to deal with seasonal fluctuations in workloads. This was done without a prior study that would have matched workloads with staffing requirements.
- Backlogs occurred that were not cleared up for nearly a year.
- The existing legislation requires a 100 percent inspection of all plumbing and electrical work.
- Plumbing fees, not changed since 1975, and electrical inspection fees substantially below fees charged in other provinces, allow recovery of only $58,000 against a total direct cost of $800,000.
- In 1976 a Provincial Building Code Act was enacted to provide for inspection of materials, workmanship, etc. for buildings under construction. The Act is not being administered or complied with.

RECOMMENDATIONS

11.10 I recommend an independent study to assess the need for changes in legislation and to recommend efficient inspection procedures, work plans, and appropriate staffing levels.

11.11 I recommend the Provincial Building Code Act be enforced.

WASTE TREATMENT AND WATER SUPPLY SYSTEMS

11.12 The Province owns four waste treatment and eight water supply systems installed in the late 60's and early 70's at a cost of $2.7 million,

mostly funded by federal subsidies. At present only one waste treatment facility is still in operation and the water systems are not being used to full capacity as a result of processing plants having been closed.

RECOMMENDATION

11.13 I recommend that the Department analyze the causes that have led to the current situation and that it develop a cost effective long and short term strategy, which requires a feasibility study on all future installations.

FISH AND WILDLIFE

11.14 Controls over equipment and collection of revenues were adequate, but operational planning, reporting and control over compensation for overtime was weak.

RECOMMENDATION

11.15 I recommend improvement in the division's operational planning and reporting procedures to achieve better control and effective use of staff.

PROVINCIAL MUNICIPAL RELATIONSHIPS

11.16 In 1983, several statutes were replaced by a new Municipalities Act. Also, a training course for municipal administrators and a handbook for elected officials were developed to promote good practices for municipal officials. In addition a proposal for more equitable treatment of provincial fiscal support to municipalities was prepared but has not as yet been approved by Executive Council.

RECOMMENDATION

11.17 I recommend the Department continue its efforts to gain approval of a comprehensive provincial municipal fiscal arrangement.

GRANTS

11.18 In 1984-85, $2.1 million was paid out in grants to support numerous organizations, widely different in their nature and size, under the Youth, Fitness and Recreation and Cultural Affairs divisions. I observed that controls such as specific terms and conditions, monitoring procedures, and evaluation methods were deficient or absent.

RECOMMENDATIONS

11.19 I recommend that prior to disbursement of funds, for each grant specific objectives, terms and conditions be defined and laid down in a written contract, signed by the recipient to signify his acceptance thereof, prior to disbursement of funds.

11.20 I recommend that the contract provide for audit and inspection by departmental officials or their authorized representatives and for recipients to submit a report upon completion of a project.

11.21 I recommend that at least on a cyclical basis, officials perform evaluations to ensure that the grants have achieved their objectives.

OTHER MATTERS

11.22 Audit work was also performed on the following areas: Community Relations, Land Use Planning, Community Services Laboratory, and Derelict Vehicles. My departmental report contains many detailed observations and recommendations on each of these matters.

PROGRESS ON IMPLEMENTATION OF RECOMMENDATIONS

11.23 My audit was completed in early 1985. I was advised recently of progress made to date towards implementation of recommendations. I am pleased to report that my departmental report has received constructive attention and that I am satisfied with the corrective action taken or proposed to date. Next year I will report more elaborately on implementation.

12. DEPARTMENT OF FINANCE & TOURISM

TOURISM BRANCH

INTRODUCTION

12.1 Tourism is a major industry. According to Tourism Branch statistics, non-residents contribute over $54 million to our economy. The Branch has a budget of $3.5 million and twenty-eight full-time employees to implement the various programs designed to meet its objectives. A Federal-Provincial Agreement, signed in October 1984, will contribute $9 million over the next 5 years. I selected a number of programs for audit and standard audit procedures were carried out as well as a survey of tourist operators.

MANDATE AND OBJECTIVES

12.2 The objectives are stated in fairly precise terms, but could be improved by clear definition of results expected, quantified where appropriate. Also achievement of objectives should be monitored.

RECOMMENDATION

12.3 I recommend that objectives be quantified where feasible and appropriate, and that progress be regularly monitored.

PLANNING

12.4 I observed that plans are not always formally approved, communicated to appropriate staff, or updated regularly. Also, no formal documented analysis of alternatives, including cost and the reasons for selection, was available.

RECOMMENDATIONS

12.5 I recommend that strategic plans be formally approved by the Minister and endorsed by Cabinet and that they be reviewed regularly and revised where necessary, and be based on a documented analysis of alternatives.

12.6 Well documented operational plans are very important for the effective management of the Branch by ensuring communication of anticipated results and coordination of divisional activities. The most recent documented plan was for 1984 but it did not indicate for all projects, resources required, how performance was to be monitored and measured, and target dates.

RECOMMENDATIONS

12.7 I recommend that operational plans be prepared and documented on an annual basis.

PROGRAM EVALUATION

12.8 Program evaluation involves the systematic gathering of verifiable information on a program and demonstrable evidence on its results and cost effectiveness.

12.9 A policy and process for formal evaluation does not exist and I observed that methods and quality of results varies with each program. The Federal-Provincial Agreement on Tourism Development required the completion of an evaluation framework by April, 1985. To date this has not been finalized.

RECOMMENDATIONS

12.10 I recommend that the evaluation framework required by the Tourism Agreement be completed as soon as possible.

12.11 I recommend that the Branch develop a practical approach for the periodic objective evaluation of Branch programs not covered under the Federal-Provincial Agreement.

VISITOR COUNTS AND SURVEYS

12.12 Substantial efforts are expended annually in gathering information and statistics about visitors that come to P.E.I. These can be very useful if the data is timely and properly analyzed to provide information for increasing the quality of existing programs, designing new programs and establishing priorities. I observed inadequate documentation on criteria for survey selection and for many surveys poorly defined objectives, late reporting, and weaknesses in data control and methodology selection.

12.13 The Branch now has a micro computer which can be used for processing some survey data.

RECOMMENDATIONS

12.14 I made many recommendations for improvements in the quality, accuracy, and timeliness of information produced.

ADVERTISING

12.15 Approximately $500,000 is spent annually on advertising. This is a highly specialized activity operating in a competitive environment. Competitive proposals are not invited and a written contract does not exist with the agency.

12.16 I observed the effectiveness of advertising campaigns is evaluated to some extent, more for print media than for radio or television campaigns. Funds are now available under the Federal-Provincial Agreement for pre and post testing of promotional campaigns.

RECOMMENDATION

12.17 I recommend competitive proposals be invited for advertising at reasonable intervals, based on well defined objectives. I made several additional recommendations concerning advertising in my report to the Branch.

TOUR DEVELOPMENT

12.18 This program is designed to promote motorcoach visitation. A major study has been completed but a detailed plan of development has not yet been finalized. Much time is spent on contacting motorcoach companies and attending trade shows. Some records are kept on these activities and motorcoach visitations, but improvements are needed to control and monitor the program on an ongoing basis.

RECOMMENDATION

12.19 I recommend early completion of a detailed plan of development for the motorcoach industry and improved performance information for the program.

RELATIONSHIPS WITH THE INDUSTRY

12.20 I have always felt strongly that one of the best techniques for establishing whether or not programs are meeting their objectives, is to contact their intended beneficiaries either by selected interviews or by surveys. The latter are more time consuming, nevertheless I decided to proceed with a survey of tourism operators.

12.21 I surveyed owners of establishments engaged in different types of tourist activities and received 149 responses. In addition, I interviewed several people actively involved in the tourist industry.

12.22 Following are some observations resulting from my survey:

- Industry operators have confidence in the staff of the Tourism Branch and find them helpful and cooperative.
- Many respondents wanted closer involvement in long-term planning and would not hesitate to inform the Branch on problems with programs or staff.
- A number of respondents indicated that more should be done to help operators and not all are dealt with on an equal basis.
- Many operators felt they should play a greater role in developing and managing the industry.
- Communication between operators and government should be improved.

12.23 My overall impression is that both the private and public sectors are working hard to improve the tourism industry, but there are different viewpoints on how the industry should be organized and managed.

12.24 Over the last 15 years the Tourism Industry has matured substantially under government's leadership. Maybe now is the time to recognize this by assigning a larger role to the private sector.

RECOMMENDATION

12.25 I recommend representatives of tourism operators and government conduct indepth discussions aimed at re-examining roles and relationships.

OTHER MATTERS

12.26 I have reported here only on the key areas of my investigation. Other areas examined include: the management information system, visitor information centres, publications, accomodation inspections, and targeted marketing.

CONCLUSION

12.27 The tourism industry has a major impact on the Island economy. The Branch has established a number of objectives for the development and promotion of tourism on Prince Edward Island.

12.28 Our audit report contains a number of findings which impact on the economic and efficient achievement of objectives. We cannot state the extent objectives are achieved because formal program evaluations are not performed for all programs, however, we can report that there are a number of problems which require attention.

12.29 The Branch has dedicated staff and we are confident that if the problems raised are addressed, the economy, efficiency, and effectiveness of Branch operations will be enhanced.

13. DEPARTMENT OF ENERGY AND FORESTRY

INTRODUCTION

13.1 The department was established in 1982 for the purposes of reducing the cost of energy and for developing the provincial energy, mineral and forestry resources. It consists of the Energy and Minerals Branch and the Forestry Branch. The first is relatively small but no less important; the second is large but narrowly focused on the development of forestry as a resource for alternative energy and for industrial purposes.

THE ENERGY AND MINERALS BRANCH

13.2 The Branch is primarily involved in policy setting and in finding a long range solution to the Island's energy problems. Its main efforts are directed towards attempts to negotiate cheaper rates for electricity and channelling the federal tax rebate on electricity to Maritime Electric for redistribution as credits to its customers. It is also involved in promoting the use of alternate sources of energy through the P.E.I. Energy Corporation. It operates programs to reduce energy dependency such as Enerpool, Residential Advisory Service, and Mobile Energy Displays. The major achievements to date have been to obtain a reduced rate for electricity purchased from New Brunswick and to negotiate a cancellation of approximately $18 million in debt resulting from construction of the underwater cable.

13.3 Another Section of the Branch is responsible for the gathering of geological information on mineral resources. It has published "The Geology of P.E.I." and intends to participate in Geoscan - an Ottawa based geological information system.

13.4 Planning, especially long-term strategic planning, is important for this Branch. Because of the many unknowns in the energy field, this is not an easy process. Little has been achieved in the way of formal documented strategic planning although short-term plans do exist and are fairly well communicated.

RECOMMENDATION

13.5 I recommend that both long and short-term plans be formulated by management and approved by the Minister.

THE FORESTRY BRANCH

PLANNING AND PROGRAM EVALUATION

13.6 A five year plan was designed in 1982. It was successfully used to obtain $20 million in Federal assistance spread over a 5 year period, in a time when substantial layoffs were imminent because of reduced federal cost sharing of salaries. As a result of the well designed plan, operations were expanded instead of curtailed. In addition the Branch has clearly defined operational plans in effect and has devoted efforts toward developing a twenty year plan. I consider the strategic planning process in this Branch one of the better ones I have observed in any of my comprehensive audits. However, good strategic planning does not necessarily mean successful implementation as will become apparent from the comments made in this report.

13.7 The Forestry Resource Development Agreement calls for a joint Federal-Provincial program evaluation no later than September 30, 1987. The Department would be well advised to evaluate its achievements periodically against the performance targets set out in the Agreement before the joint evaluation. If it is found that the program did not acheive its objectives, future funding may well be jeopardized or the Federal Government may take over the operation of the program.

RECOMMENDATION

13.8 I recommend that program evaluation be implemented especially for those programs under the Agreement.

MANAGEMENT INFORMATION SYSTEM

13.9 This consists primarily of a bi-weekly reporting system that has recently been upgraded. It now provides annual objectives for each program but defines actual performance targets for only two of its eight programs. I also noted that reports for two of the three district offices were out of date and incomplete.

RECOMMENDATION

13.10 I recommend that the Management Information System be improved by ensuring reports are current and complete.

PRIVATE LAND MANAGEMENT

13.11 This program provides one hundred per cent federal funding towards improving growth and quality of privately owned wood lots. Program **implementation** leaves much to be desired. It is estimated that underexpenditures of $900,000 or 20% of the available budget over a five year period will occur. Many management plans for individual lots are inactive. One reason given is a shortage of trained silviculture workers. Another reason given was that market conditions for wood are poor.

13.12 The Department has not made an attempt to determine the extent of client satisfaction. As part of my audit I interviewed twenty-four woodlot owners and found that nine had at least one negative comment about the program. This was not a scientific survey but it does indicate that the Department should measure client satisfaction

RECOMMENDATION

13.13 I recommend that client satisfaction be determined by a survey of all woodlot owners and, based on results, appropriate changes be made.

CROWN LAND MANAGEMENT

13.14 The Branch also manages forested Crown land but has not prepared management plans for improving them. Underspending in the private woodlot program could be made up by more agressive management of the Crown lands.

13.15 At least on an overall basis the intent of the agreement could be met if Crown lands were developed. The majority of lands are owned by the Land Development Corporation and no government policy exists to protect them from sale to private interests. Yet, these lands could be used as a buffer when silvicultural workers are underemployed, and insufficient woodchips are available for the increasing number of wood burning installations, etc. Perhaps funding could be found by negotiating a transfer of surplus funds from the Private Woodlot Program.

RECOMMENDATION

13.16 I recommend that the importance of Crown woodland to the forest industry be evaluated and that management plans be developed.

MANAGEMENT OF SILVICULTURE CREWS

13.17 I observed that no quality assessments were made in 1985 for crews in two of the three districts. I also observed that private sector crews were substantially more efficient than government crews. Objective performance standards have been developed and performance of all crews should be measured against them.

INDUSTRY DEVELOPMENT

13.18 Appropriate action in the areas of manpower training and industry development are critical to the success of the private woodlot management program and the development of the forest industry in general. Both these areas are within the mandate of the Department of Industry. As a result, the Department of Energy and Forestry can only attempt to precipitate appropriate actions through interdepartmental negotiations.

13.19 The Minister and Deputy Minister of Energy and Forestry have assured me that they have done as much as possible towards successful negotiation. As noted in paragraph 13.11 above, a shortage of trained workers and a lack of outlets for forestry products are quoted as the main reasons for not achieving the objectives of this program. It is obvious that more needs to be done.

13.20 Where interdepartmental conflicts over priorities exist, Treasury Board or possibly the ultimate authority within government - Executive Council - should resolve them.

RECOMMENDATION

13.21 I recommend that Treasury Board review the situation and take steps to ensure that governments' priorities with respect to Forestry training and industry development are appropriately dealt with by the Department of Industry.

OTHER MATTERS

13.22 **Silviculture Program:** This is a project to evalulate experimental techniques. The program is underspent by fifty-four per cent.
Biomass Inventory: A forest inventory was completed in 1980/81 at a cost of $750,000. The inventory is the foundation for planning activities in the forest industry. It is therefore important to ensure that the inventory is kept up to date as well as possible. Efforts to date have been unsuccessful and in view of the importance of the inventory should be substantially improved.
Public Information Program: This program has been successful by increasing public awareness of the importance of forest resources. Specific target groups have been identified, methods have been developed and implemented to inform them, and the results have been evaluated.

SUMMARY

13.23 The Forestry Branch has obviously not been meeting its objectives. Underexpenditure, especially in the labour intensive programs, means jobs lost in the private sector, jobs so vital in a region of chronic unemployment. The important role that Crown lands could play in the orderly development of the industry has been insufficiently recognized. It is obvious from various observations that substantial improvements can be made in the efficiency of the Branch.

DEPARTMENT OF FINANCE & TOURISM

LAND VALUATION AND ASSESSMENT DIVISION

INTRODUCTION

14.1 The Division is responsible for the assessment for all commercial and non-commercial real properties. My audit was directed at evaluation of the planning and control systems that would ensure uniform assessment within the requirements of the Real Property Assessment Act.

HISTORY

14.2 Prior to 1972 some municipalities, or communities and school districts handled assessment for property and/or school taxes, each using different approaches.

14.3 In 1971, the Real Property Assessment Act was enacted and since 1972 the Provincial government has assumed province-wide responsibility for the assessment and collection of property taxes.

PROPERTY ASSESSMENT AND TAXATION SYSTEM

14.4 Before 1984, assessments were controlled by a manually operated system. Control on workloads and uniformity of assessments was cumbersome and the assessors were burdened with substantial administrative work. This created staff shortages which were further aggravated by increasing workloads and budgetary restraints. As a result it was difficult if not impossible to meet the 5 year re-assessment cycle required by the Act.

14.5 In order to solve this problem, management decided to take advantage of computerization and designed an automated system that became operational in Februray 1984.

14.6 This system has substantially reduced the many labor intensive tasks and has improved the quality and uniformity of assessments. Many manual calculations have been eliminated. Clerical tasks formerly handled by assessors are now handled by clerical staff and assessors are provided with computer generated working documents. This approach has freed assessors to concentrate on their real task, evaluating and assessing, and has mitigated the problem of staff shortages.

14.7 The system also improved the speed and accuracy of applying across the board adjustments. The system has created the potential for generating assessment and market information. With these improvements the need for inspections every three to five years should be reconsidered. In some other jurisdictions the period is as long as ten years. Reductions in the frequency of inspections could generate substantial savings.

RECOMMENDATION

14.8 I recommend that the departmental management re-examine the need for inspections once every five years and if appropriate promote a change to the Act allowing an extended period for the next cycle.

14.9 I recommend that divisional management examine the feasibility of eliminating the manually prepared inspection card in view of the computer generated working documents that are now available.

REAPPRAISAL PROGRAM - RESIDENTIAL SECTION

14.10 This section is responsible for reappraising 66,000 properties over a four year cycle that began in 1983. The staff consists of 18 assessors and three supervisors.

14.11 Management monitors performance by a system of individual work plans. I observed a wide variance in the levels of performance. Half the assessors are well below their performance targets and the performance of one is absolutely unacceptable. If the current rate prevails it will take five and one half years rather than the four planned to complete the cycle. In spite of weekly and monthly progress reports, management has not taken effective corrective action.

RECOMMENDATION

14.12 I recommend that management hold supervisors accountable for the performance of their subordinates and that corrective action be taken on a timely basis each time an assessor fails to meet the objectives of his work plan.

REAPPRAISAL PROGRAM - COMMERCIAL SECTION

14.13 This section employs two assessors and one supervisor and unlike the residential section uses a completely manual process. It will not achieve its four year goal, in part as a result of short staffing, in part because the newly acquired Marshal Valuations Service Software package requires substantial updating of the manual records used in the past. At the time of our audit only twenty-six per cent of the properties had been re-appraised when sixty per cent should have been completed.

RECOMMENDATION

14.14 I recommend that management take steps to ensure all commercial properties are appraised within the planned four year cycle.

QUALITY CONTROL

14.15 The objective of the Research and Analysis and the Operations System Sections is to develop a complete set of standards so as to improve the quality and uniformity of property assessments. My review indicates that this objective is being achieved.

CONCLUSION

14.16 High standards of quality control and the implementation of the computerized system allow me to state that the division is achieving its purpose of assessing all real property in the province. However, as indicated in this section of my report, unless there is an improvement in supervision and enforcement of performance standards, management will not likely complete its stated objectives for the current four year cycle.

15. CONTROL OVER BANK ACCOUNTS

15.1 Section 13 of the Financial Administration Act applies to all government departments listed in Schedule A. It states that "accounts for the deposit or disbursement of public money shall be established with such banks as the Minister may designate".

15.2 Section 60 applies to all Crown Corporations, listed in Schedule B, and C, insofar they have not been authorized by another Act. Section 60 states that "a departmental corporation may, with the approval of the Minister, maintain in its own name, one or more accounts in such bank in Canada as the Minister may approve".

15.3 Between the two sections all bank accounts held by or in the name of the government or any of its agents or agencies in the widest sense in my opinion are subject to approval by the Minister of Finance and Tourism.

15.4 The objectives of the control are to ensure that:
- no accounts are unnecessarily opened or kept longer than necessary,
- bank balances are kept to a minimum and surplus funds are either returned to the Consolidated Fund or invested at the best possible rate of return,
- the most economic arrangements are made concerning interest rates, service fees and reasonable rate of interest on overdrafts,
- proper precautions are taken against abuse of funds.

15.5 As a follow-up to my 1983 comprehensive audit on cash management I performed a cursory review of bank accounts maintained by the various departments, crown corporations, agencies, and commissions of the government of Prince Edward Island. In total we identified ninety separate bank accounts.

15.6 I observed that fourteen accounts were not duly authorized, in spite of a survey conducted by the Department of Finance and Tourism in December 1984. I also found that on at least four accounts overdraft interest was as high as twenty-one per cent. I did not examine whether or not overdrafts did occur.

15.7 The Minister under Section 57 of the Act is not required to approve bank accounts authorized by other Acts. However, on several occasions in the past I have found contraventions to the criteria mentioned above. In my opinion nothing in the Financial Administration Act **prevents** the Minister from exercising control over those accounts.

RECOMMENDATIONS

15.8 I recommend that the Minister of Finance and Tourism tighten controls, periodically update the list of bank accounts, draft guidelines corresponding to the criteria outlined in this section and communicate these to account holders.

15.9 I recommend that the Minister of Finance and Tourism cause periodic inspections of bank accounts held by government or any of its crown corporations or agencies, including those that are authorized by other Acts to be conducted.

16. CIVIL SERVICE SUPERANNUATION FUND

16.1 I am the statutory auditor for this Fund. The Fund administration was computerized during 1983 but was not ready for audit as of March 31, 1984. I therefore postponed my audit and am now in the process of completing my audit for the two years ending March 31, 1985. A copy of the audited statements is attached as Schedule "G" to this report.

16.2 The computerized system is not operating satisfactorily. I receive conflicting opinions from the manager of the pension and employee benefits section and the manager of the computer services division.

RECOMMENDATION

16.3 I recommend that the Deputy Minister of Finance and Tourism ensure that the problems with the pension administration be promptly resolved.

16.4 In 1984 I reported on my comprehensive audit of pension fund management and suggested that investment management be contracted out to experienced professionals. Although attempts have been made in that direction, as of now, they have not been successful. Our rate of return for the 1985 fiscal year was 12.4 per cent. This does not sound so good when reading that one professionally managed pension fund averaged 23.3 per cent over three years, 16.5 per cent over five years and 16.7 per cent over ten years. This was achieved with a flexible mix of investments.

16.5 If our fund had experienced a 16.7 per cent rate of return over ten years compared to an actual return of 11.4 per cent the fund balance would be approximately $20 million higher than it is now.

16.6 I am not criticizing the investment manager of the pension funds. I am aware that section 18 of the Financial Administration Act imposes a restrictive investment policy and that a ten year average rate of return of 16.7 per cent may not have been attainable. However, I believe that professional management coupled with an easing of legislated investment restrictions will result in a significant reduction of pension liabilities over time.

RECOMMENDATION

16.7 **I recommend that the Chairman of Treasury Board ensure that the necessary steps towards professional external investment management be completed in the near future.**

17. CAPITAL EXPENDITURES

LEGISLATIVE CONTROL

17.1 Prior to 1974, annual appropriation acts allocated **specific** nontransferable amounts to **each capital project.** Since then, the Acts established **summary** allocations by **department,** based on the Estimates which provided project details for the information of the Legislative Assembly. In effect, therefore, the Legislative Assembly **delegated control** to the Executive Branch, because it could now transfer funds at will between projects or indeed to projects not previously mentioned in the Estimates without approval of the Legislature.

17.2 Legislative control over capital expenditures has never been very strong, even before 1974, because only **annual** allocations were made even for major capital projects that took two to three years to complete. Total costs for major projects often exceeded original estimates by as much as 50 percent, as reported from time to time in my annual reports.

17.3 In recent years I have observed a trend toward having capital projects constructed by Crown Croporations. Examples are: the Hillsboro Hospital, the Garden Province Meat Plant, the Atlantic Veterinary College, projects for Holland College, and Schools, to name some. No appropriations were presented in the Estimates for these projects. Again, in effect, even **more** authority has been **implicitly** delegated to the Executive Branch.

17.4 Whether or not this delegation to the Executive Branch has taken place intentionally or by default is impossible to establish because the House has never stated its position on this matter. I can only state that as matters now stand this delegation is a fact.

RECOMMENDATION

17.5 I recommend that the Legislative Assembly reassess the factual delegation of control over capital expenditures to the Executive Branch.

CAPITAL PROJECT MANAGEMENT SYSTEM

17.6 Because delegation has taken place the onus is on the Executive Branch to prove that it is worthy of this responsibility, by strong internal control through a well managed **capital projects management system.** After comments in successive annual reports indicating weak internal control, Treasury Board, in 1981, finally installed a system.

17.7 This year I conducted an overall review of the planning process and in particular I examined the implementation of the System. I reviewed the renovations to the MacMillan Building (Old Charlottetown Hospital) and the replacement of the heating plant at the Sleepy Hollow Correctional Centre.

17.8 Although the Capital Projects Management System did not materially alter the planning processes in place prior to 1981, it did establish some controls at key stages of project development and provide for specific outputs documenting the process.

17.9 One of the more important outputs was to be a capital projects master plan. This plan was to be regularly updated, identify all new projects, include estimated total costs and indicate the status of each project. In addition, there was to be a direct correlation between the projected annual cash flows in the master plan and the Estimates tabled in the Legislature.

17.10 My review of the master plan indicated that it fell considerably short of its objectives. I observed that it had not been updated since February 1984, that it intermingled projects with which Government was only peripherally involved such as the Airport Terminal, the Polyclinic Building, and the Atlantic Veterinary College and excluded a number of projects ranging in value between $50,000 and $330,000. For those projects listed there was an estimate of total cost but no projected cash flow by fiscal year of construction. Attached to the master plan were summary sheets for some of the projects which apparently were designed to provide information on the status of each project. However, this set of summaries was incomplete and the status information was somewhat sparse and outdated.

RECOMMENDATION

17.11 I recommend that Treasury Board ensure the capital projects master plan is maintained as required by its system.

CHARLOTTETOWN HOSPITAL

17.12 The Hospital was renovated and now accomodates several government services. The building could have accomodated approximately 25 per cent more staff, if a different, although more costly approach would have been taken. The additional space would have prevented problems that have now arisen in the redistribution of space involving several departments in the Shaw and Jones buildings. It appears to me that with some planning these problems could have been foreseen and that the cheapest solution to the renovation has not necessarily been the best one.

SLEEPY HOLLOW CORRECTIONAL CENTRE

17.13 The heating plant at the correctional centre has been replaced less than five years after it was first constructed. The new heating plant is economically justified because it was 80 per cent cost shared with the Federal Government. However, the original heating plant which consisted of a combination of oil and wood gasification was obviously a poor decision. The gasifier was used for only part of one heating season with very unsatisfactory results and was purchased against the explicit advice of the mechanical consultant at the time.

ATLANTIC VETERINARY COLLEGE

17.14 The College is being constructed by the P.E.I. Crown Building Corporation. The estimated cost is $36.5 million in 1983 constant dollars, cost shared 50 per cent by the Federal Government, 16 per cent by Nova Scotia, 13 per cent by New Brunswick, 1.5 per cent by Newfoundland, and 19.5 per cent by Prince Edward Island, which is also responsible for any cost overruns. The four Atlantic Provinces will share in the operating costs in return for the right to designate an agreed number of students.

17.15 I engaged a consultant to assess the technical aspects of the project. However, I did not examine the feasibility of the College. Following are some of my observations:

- Because of the magnitude of the project it was not possible to meet an important sub-objective, to keep as much as possible of the construction work within the Atlantic region, without splitting the various phases of the project into relatively small tender packages. Certain risks associated with project coordination and assignment of responsibility for subsequent system failures, increase with the number of contractors

involved on a project. Management has assured me that no such problems have occurred, and that none are anticipated. Management also pointed out that a substantial amount of work has gone to local contractors. If the tender packages had not been split to the extent they were, this work would have gone to contractors from outside the province and region.

- The Dean and four Department Heads were hired more than a year before classes are expected to start and salaries have been charged to the project. Such expenditures are usually classified as deferred operating costs. However, project management feels that the contribution of these individuals to the finishing details of the project warrant the allocation of their salaries to the project.
- Two changes were made to the cost sharing agreement: one involved the timing of progress payments by participants and one changed the index used for de-escalating actual costs to 1983 constant dollars. Both changes should have resulted in a formal amendment to the five party agreement. Only one did. No amendment was made for the change in timing of progress payments.
- As previously noted, P.E.I. has sole responsibility for project cost overruns. At present, there is a substantial contingency account which makes the likelyhood of an overrun appear small. However, the construction index being used to de-escalate actual costs for budget comparisons has not been revised to actual. If the actual inflation rate turns out to be lower than the rate projected by the index, the downward revision of the index could seriously deplete the contingency account and even result in a cost overrun. I am satisfied that project management is fully aware of this risk and that any expansion in the scope of the project is being approached with a great deal of caution.

18. PRINCE EDWARD ISLAND HOG INDUSTRY

18.1 In recent years funds paid by the Province to the hog industry have been substantial. Also, the construction of a new meat plant will have a major impact on this important industry. The total costs are not published in one report and I thought it would be **informative** to present the financial information since the inception of the Hog Stabilization program in 1973. Therefore, I have assembled selected unaudited financial data on the support provided over the years to this industry.

SUMMARY OF COSTS

Stabilization Program Costs (1973 - December 31, 1985)	
- Stabilization Grants	$ 5,913,000
- Administration	299,000
- Interest	1,054,000
- Transportation and Marketing	472,000
	$ 7,738,000
Department of Agriculture Program Costs (1973 - March 31, 1986)	
- Hog Transportation	$ 150,000
- Swine Genetic Development	751,000
- Swine Incentive Program (1985/86 only)	2,000,000
- Swine Development Program	761,000
- Swine Inspection Program	523,000
- Other	67,000
	$ 4,252,000
Meat Plant Operating Losses (1983- March 31, 1986)	
- October 17, 1983 - May 31, 1984	$ 1,100,000
- June 1, 1984 - March 31, 1985	1,197,000
- April 1, 1985 - December 27, 1985	704,000
- December 28, 1985 - March 31, 1986 (Projected)	158,000
	$ 3,159,000
Total	$15,149,000
Meat Plant Construction Costs	
- Canada	$ 4,500,000
- Province of P.E.I.	3,300,000
- Canada Packers - 35% ownership	2,100,000
- Hog Producers - 52% ownership	480,000
- Beef Producers - 13% ownership	120,000
Total Projected Construction Costs	$10,500,000
Loans Guaranteed by the Province	
- Hog Commodity Marketing Board	$ 4,353,000
- H.C.M. Industries Limited	480,000
Total Guarantees	$ 4,833,000

19. MANAGEMENT OF TRAVEL

INTRODUCTION

19.1 This year I performed a government-wide audit on the management of travel costs and planning. Travel is an essential component of departmental administration because of our location, our need for federal assistance and for communication purposes. In 1984-85, $3.7 million was spent on this activity, an increase of 9% over last year. Over the last three years travel expenses on the average increased by 4%.

19.2 Travel policies, regulations and procedures are contained in a travel directive issued by Treasury Board. This directive is well adapted to varied departmental situations and is updated regularly.

19.3 My audit covered 1984-85 expenditures for transportation, accomodations, meals, and miscellaneous expenses on in and out-of-province travel by government employees. As well, from interviews I determined travel management practices.

TRAVEL PLANNING

19.4 Each department is responsible for planning staff travel with due regard to economy. Generally, I found an awareness of the need to reduce travel expenditures, largely necessitated by budgetary pressures as a result of the restraint program. In many cases documented departmental procedures were lacking to ensure travel at the most economical cost.

RECOMMENDATIONS

19.5 I recommend that Treasury Board include in its directive a requirement to designate one person per department to plan travel arrangments.

19.6 I recommend that Treasury Board identify specific hotels offering special government rates and that a list of approved hotels be made available to all departments.

COMPLIANCE WITH THE TRAVEL DIRECTIVE

19.7 Testing of a random sample of travel expenditures on in and out-of-province travel revealed only minor errors, mostly due to misinterpretation of the directive or miscalculations.

TRAVEL ADVANCES

19.8 I noted that advances were often obtained earlier than necessary or held well after completion of the trip.

RECOMMENDATION

19.9 I recommend that Treasury Board include specific time limits on obtaining and repaying advances in its directive.

TRAVEL ALLOWANCES

19.10 There is a special travel allowance for employees, who in exercising their duties are low distance drivers, yet need a vehicle **available** most of the time.

19.11 I observed that several employees received an allowance although they did not qualify under the criteria specified by the directive. I found that in one department, twenty-two employees who received the allowance did not qualify.

RECOMMENDATION

19.12 I recommend that Treasury Board periodically analyze travel allowances to ensure that only employees qualifying under the directive receive such allowances.

20. PERFORMANCE APPRAISAL

INTRODUCTION

20.1 People are the most important asset in government. In 1984-85 the total payroll for 3,600 employees was approximately $90 million.

20.2 Human resource management has many components; manpower planning, training, job classification, compensation, information systems, and performance appraisal. I limited my audit to one specific component, the systems in place for performance appraisal.

20.3 Performance appraisal is a process of evaluating the employee's performance by criteria that reflect the job requirements. It serves as a platform for communications between employer and employee when strengths, weaknesses, training, career planning, and degree of job satisfaction are discussed. Properly handled, these discussions can lead to a better understanding between both parties and will stimulate good working relationships. The discussions should also contribute to improved performance and productivity.

AUDIT SCOPE

20.4 My government-wide audit covered a review of appraisal systems in place, discussions with personnel managers and testing of a sample of rating forms in use by the Civil Service Commission.

ROLES AND RESPONSIBILITIES

20.5 The Financial Administration Act assigns the responsibility for establishing policy for the efficient administration of the public service to Treasury Board. At present no policy that deals with performance appraisal has been established, but Treasury Board is considering making appraisal mandatory.

20.6 The Civil Service Commission requires completion of an employee rating form before processing departmental proposals for annual increments and permanent appointments. A sample of 320 of their files did not disclose any instances where an increment was denied, making it appear that the performance rating is more a formality than serving any useful purpose.

20.7 The Commission views performance appraisal as a departmental responsibility. I tend to agree, because the Commission's standard forms are too generic, to be of any real use for departmental purposes.

RECOMMENDATIONS

20.8 I recommend that Treasury Board establish policies, procedures, and criteria for a performance appraisal process and that it provide guidelines for its administration and the design of evaluation forms.

20.9 I recommend that Treasury Board assess the need for the rating forms used by the Civil Service Commission and that it clearly indicate which functions must be performed by the Commission and which by the departmental staff.

REPORTS ON FINANCIAL AUDITS

21. INTRODUCTION

21.1 Section 13(1) of the Audit Act establishes my mandate for financial audits of the Public Accounts, financial statements of Crown controlled or owned corporations, and of the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

21.2 In financial audits the auditor, after an examination of records in accordance with the standards prescribed by his profession, expresses an opinion on the financial statements prepared by his client.

21.3 During his examination the auditor may observe problems in the quality of records and financial controls. He may also observe problems in other areas. Any deficiencies or other matters are reported in a management letter addressed to the client.

21.4 Section 16 of the Audit Act determines my reporting duties to the Legislative Assembly. Accordingly I submit the results of my financial audits for the year ended March 31, 1985 in the sections following this introduction.

22. PUBLIC ACCOUNTS

UNQUALIFIED OPINION

22.1 For many years in my annual reports to the Legislative Assembly I have published lengthy comments on the Public Accounts. Many simply resulted from a lack of satisfactory disclosure notes to the financial statements.

22.2 It gives me a great deal of satisfaction that, after discussions with the Deputy Minister of Finance and Tourism and the Comptroller, I can report that most concerns were resolved to our mutual satisfaction, allowing me to express an unqualified audit opinion on the Public Accounts.

COMMENTS ON THE PUBLIC ACCOUNTS

22.3 The remainder of this section deals with statutory reporting requirements and miscellaneous observations related to the Public Accounts of the Province.

SURPLUSES OF GOVERNMENT AGENCIES

22.4 Section 16(f) of the Audit Act requires me to report the deficits of government agencies not covered by appropriations or any surpluses not paid into the Consolidated Fund. The following is reported for 1984/85:

	SURPLUS (DEFICIT)	
GOVERNMENT AGENCY (Note 1)	**1984/85**	**Accumulated**
P.E.I. Crop Insurance Agency	($576,000)	$ 738,000
P.E.I. Energy Corporation		
- Operating	($ 35,000)	$ 250,000
- Capital	($412,000)	$4,059,000
P.E.I. Grain Elevators Corporation	($141,000)	($ 183,000)

Note 1: The above entities have each obtained approval or instructions from Executive Council to carry over their surplus or recoup their deficit.

ACCOUNTS WRITTEN OFF

22.5 Section 16(g) of the Audit Act requires that I report the total amount of any claims, obligations, debts or money due to the province that have been

discharged, cancelled and released under Section 17 of the Financial Administration Act. The total written off in 1984/85 was $577,000. In addition, the following write-offs were made:

- An uncollectible debt to the Department of Transportation and Public Works in the amount of $73,000 was charged to bad debt expense and provided for by a special warrant. Is was not cancelled under Section 17 of the Act.
- At my recommendation, the Department of Education transferred responsibility for collection of student loans in arrears to the P.E.I. Lending Authority in the early 1970's. In 1984/85 some of these accounts totalling $30,000 were recommended for write-off by the Lending Authority. The Department of Finance wrote off the accounts without the Order-in-Council required under Section 17 of the Financial Administration Act. Also, the write-off was charged to miscellaneous revenue instead of bad debt expense.

REALIZEABLE ASSETS

22.6 The definition of realizable assets which has a direct bearing on the determination of net debt, is still an unresolved matter. The Deputy Minister of Finance and I each have our own opinions. But at this stage, because of a lack of **generally accepted government accounting principles** they remain **personal** opinions. A reasonable compromise solution was arrived at by including a note to the Public Accounts identifying certain major assets which are being realized not from independent third parties but from annual appropriations of the consolidated fund. In the past, I have provided a schedule in my report which restates net debt. This year I have omitted this table because I am satisfied that the notes provide sufficient information to allow the readers of the statements to determine for themselves the net debt position of the Province.

22.7 It is likely that the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants, will this year release a bulletin that will provide the general principles for financial reporting by governments and which may resolve this disagreement.

HEALTH TAX ON TOBACCO

22.8 Health Tax Regulations require wholesalers in tobacco products to remit tax collected within fifteen days of the following month. I noted during my audit that some wholesalers are being allowed forty-five days to remit. Also there are no provisions in the regulations to charge interest on late remittances.

RECOMMENDATION

22.9 **I recommend that the regulations be changed to include a provision for interest on late remittances and that the present fifteen day payment period be consistently enforced.**

LOTTERIES COMMISSION - ACCOUNTS RECEIVABLE

22.10 The account receivable from the Lotteries Commission through an oversight was not adjusted to reflect a net reduction resulting from transactions during the 1984/85 fiscal year. As a result, both accounts receivable and revenues are overstated by $75,000 and the current account deficit is understated by the same amount.

STATEMENT OF CHANGES IN FINANCIAL POSITION

22.11 In the last few years, a **statement of net debt** has been published as part of the Public Accounts. A **statement of changes in financial position**, however, would provide a much clearer picture by reporting all major financial transactions in capsule form. The Public Sector Accounting and Auditing Committee is about to release a bulletin on Financial Reporting in Government, urging all jurisdictions to adopt such a statement.

22.12 For the information of the Legislative Assembly, I have included such a statement for 1984/85 attached to this report as Schedule "E".

RECOMMENDATION

22.13 **I recommend that the Comptroller include a statement of changes in financial position with the Public Accounts of the Province starting with the 1985/86 fiscal year.**

TRUST FUND NOT RECORDED

22.14 As part of a contractual obligation to purchase certain assets of Harbourside Development Corporation, the Province has established a special trust fund which will be used when the contractual obligation comes due. The periodic payments into this fund have been charged off to a grant account and the balance of the fund is not included in the trust funds section of the Public Accounts. As at March 31, 1985 the balance of the trust fund was $568,000.

CHARLOTTETOWN AREA DEVELOPMENT CORPORATION

22.15 The Province has made substantial commitments in connection with C.A.D.C., including a guarantee totalling approximately $7 million which is disclosed in the Public Accounts.

22.16 Because of staff shortages in my office and the complexity of the organizational structure and financing arrangements at C.A.D.C., I have been unable to conduct sufficient audit work to satisfy myself that the

exposure of the Province has been adequately evaluated and disclosed in the Public Accounts. I have no indications however, at this stage, that there is any reason for concern. I will complete my work this year and report my findings in next year's annual report.

23. APPROPRIATIONS

23.1 My audit of appropriations included a review of the systems and procedures for the administration of the annual budget. This entailed an audit of appropriations approved by the legislature, additional appropriations approved by Executive Council upon recommendations by Treasury Board, transfers approved by Treasury Board, and expenditures incurred by departments.

23.2 In schedules "A" and "B" attached to this report I have compared appropriations with actual expenditures in accordance with the classifications in the 1984-85 Appropriation Act.

Appropriations	SCHEDULE "A" ORDINARY ($000'S)	SCHEDULE "B" CAPITAL ($000'S)	TOTAL ($000'S)
Original Act 1984 Session	$440,301	$23,922	$464,223
Supplementary Act 1985 Session	6,261	3,356	9,617
Increases by Order-in-Council	5,441	-	5,441
Total Appropriations	$452,003	$27,278	$479,281
Actual Expenditures	434,448	23,586	458,034
Under Expenditures	$ 17,555	$ 3,692	$ 21,247

23.3 Section 16(h) of the Audit Act requires me to report on additional appropriations. Details are shown in Schedule "C" attached to this report. Schedule "D" also attached to this report lists major under-expenditures.

23.4 Schedule "A" attached to this report shows comparative actual expenditure figures for the **previous** fiscal year. Because of a significant reorganization of departments midway through the 1983/84 fiscal year, expenditures for the departments affected by the reorganization are reported partly under the old and partly under the new departmental names. This impairs the comparability of figures between the two years, however, I had no choice but to follow the order of the Appropriation Act and Special Warrants issued during the year. For more comparable figures, refer to the 1983/84 Public Accounts.

24. FUNDED AND UNFUNDED DEBT

24.1 To provide the members of the Legislative Assembly with a better understanding of the funded and unfunded debt and the net debt structure of the province, I have included some schedules along with related notes and definitions in this section

DEFINITIONS

24.2 - **Gross Funded Debt** is the long term debt for which systematic provisions for redemption are being made by way of contributions to a sinking fund or other charges to the current account.
- **Sinking Funds** are savings resulting from the accumulation of annual appropriations and interest income thereon and are used to repay the debts as they mature.
- **Net Funded Debt** is the gross funded debt less sinking funds.

COMPARATIVE SCHEDULE OF FUNDED DEBT

March 31, 1985 and 1984

Gross Funded Debt	1985 ($000's)	1984 ($000's)
Financed by: - debenture issues	$262,541	$233,911
- Canada Pension Plan Loans	119,664	109,164
Gross Funded Debt - Notes 1 and 2	**$382,205**	**$343,075**
Sinking Funds		
Provision for redemption of specific debentures	$ 75,245	$ 72,910
Provision for redemption of specific Canada Pension Plan loans	43,095	36,014
Market Contingency Fund - **Note 3**	9,558	4,570
Total Provisions	$127,898	$113,494
Net Funded Debt	**$254,307**	**$229,581**

SCHEDULE OF CHANGES IN GROSS FUNDED DEBT

For the Year Ended March 31, 1985

		1985 ($000's)
Gross Funded Debt, March 31, 1984		$343,075
Less:		
1968 issue: Annual payment on principal	70	
1964 issue: Issue matured	2,300	
1964 issue: Issue matured	4,000	6,370
		$336,705
Plus: New Issues		
20 years Canada Pensions Plan Average Interest Rate 13.4%	10,500	
20 Years-December 12, 2004, 12-3/4%	35,000	45,500
Gross Funded Debt, March 31, 1985 Notes 1 and 2		**$382,205**

COMMENTARY

NOTE 1: **Gross Funded Debt** reported in the Public Accounts is $401,205,000. That figure is incorrect because it includes a $19,000,000 ten year loan repayable in ten annual installments. This serial debenture is not funded because to date the annual installments have been made from additional borrowings not from the current account.

NOTE 2: **Gross Funded Debt** reported in the Public Accounts also included a $25,000,000 debenture issue which matures in August, 1987. The sinking fund provision for this issue at March 31, 1985 was only $738,000. There will be a substantial shortfall in the sinking fund when this issue matures

NOTE 3: As debenture issues mature, the corresponding funds may be greater than the amount required to retire them. The **Market Contingency Fund** of $9.6 million is the accumulation of these surpluses plus interest earned. The intent of maintaining this fund is to provide for any shortfalls on future redemptions. If used to retire the August, 1987 issue mentioned in Note 2 above, the contingency fund will offset most of the shortfall.

COMPARATIVE SCHEDULE OF COMBINED NET DEBT

March 31, 1985 and 1984

	1985	1984
	($000's)	($000's)
Consolidated Fund	$129,229	$125,143
Crown Corporations and Agencies	26,091	19,954
Combined Net Debt - Note 1	$155,320	$145,097

NOTE 1: **Net Debt** is the difference between total liabilities and total realizeable assets. **Combined Net Debt** is the total of the net debt of the Consolidated Fund and those of Crown Corporations and agencies.

PER CAPITA DIRECT AND GUARANTEED DEBT - 1985

Following is a schedule of per capita debt as reported in the Globe and Mail of January 23, 1986:

PROVINCE	PER CAPITA DEBT	PROVINCE	PER CAPITA DEBT
Prince Edward Island	$3,600	Saskatchewan	$6,100
Ontario	$5,300	Nova Scotia	$6,900
Alberta	$5,300	New Brunswick	$7,400
British Columbia	$5,600	Newfoundland	$8,100
Quebec	$5,900	Manitoba	$8,200

For further comparison, national per capita debt in Canada is $7,900 and in the United States is $9,500 ($6,800. U.S.). These two figures were provided by the Economics and Statistics Branch of the Department of Finance and are approximations.

25. DEPARTMENT OF FINANCE & TOURISM

COMPUTER SERVICES DIVISION

25.1. The last decade has seen a rapid, almost explosive growth in the use of computers within government. Annual costs have almost quadrupled during this period while mainframe applications and central processing utilization has increased eight-fold.

25.2 A number of years ago a Computer Priorities Committee was established as a sub-committee responsible to Treasury Board to ensure the efficient use of computer resources across government, to evaluate the need for and the cost effectiveness of computer applications and to priorize the many demands for new systems or major revisions to existing ones.

25.3 My Office has always recognized the importance of our investment in computer software. A few years ago I conducted an environmental and partial security review and my recommendations were acted upon almost immediately. Substantial improvements were made by relocating that division to more suitable and physically secure premises.

25.4 Many confidential records and data are kept on computer. The security of this data will continue to be an important audit concern of my Office. This year again I commissioned a security review of the computer operations.

. .

25.5 I reported a number of findings to the Director related to existing facilities, personnel practices, operations, systems and communications software, back-up and recovery plans, security standards and systems development and maintenance.

25.6 My recommendations for improvement received full attention and many were promptly implemented. Four major recommendations were:
- To improve control over access by on-line terminal users.
- To restrict the access which programmers now have to production programs and data files.
- The immediate development of a master contingency plan which would include explicit disaster recovery procedures.
- To create a new position for a security officer.

25.7 Control over access by on-line terminal users is the only area of concern which in my opinion is not receiving the attention it deserves. This year we have one example of unauthorized access by an employee to an on-line system which could have resulted in a loss of revenue to the province if it had not been observed by fellow employees. From the Division's responses to detailed findings related to this area of control I have concluded that it is underestimating the risks involved.

25.8 The second recommendation is being addressed appropriately. The Division has indicated its intention to more clearly separate systems development and operations.

25.9 The last two recommendations were recognized as very important but a lack of resources prevented a meaningful implementation.

25.10 As an observer on the Computer Priorities Committee, I suggested the Director make a presentation in regards to these two problems and others, only to find that he was already preparing one.

25.11 Over the years several million dollars have been invested in systems development. Regular maintenance of the many major systems is a must because they can become obsolete or overpatched and hence, less useful. Lack of proper and regular maintenance could result in a far costlier need for redesigning an entire system.

25.12 The sharply declining cost and vastly increased power of micro computers have in the last two years led to a trememdous growth in the use of this equipment. Eighty-five units are now in use versus twenty-five two years ago.

25.13 To ensure that funds are well spent the Computer Priorities Committee charged the Computer Services Division with the control over equipment purchased, government-wide. This will ensure there is a demonstrated need for equipment, and the right equipment is purchased at the best price. To promote maximum use of the micros, and to train departmental staff in operating and programming them, the Computer Services Division maintains a client service division. It is likely that the demand for these services will continue to grow over the next few years.

RECOMMENDATION

25.14 I recommend that Treasury Board approve a modest staff increase necessary to protect the substantial investment in computer resources.

26. RECOGNITION OF LOSSES

26.1 A loan does not suddenly become uncollectible, nor does a guarantee suddenly become a loss. In most cases, the risk of losses on accounts receivable or guarantees becomes apparent gradually. It could take months or years before its actual magnitude is known. Generally accepted accounting principles and prudent financial management require that losses be recognized as risk positions become reasonably obvious, not when they are final.

26.2 Even though exact losses may not be known until every option has been explored, reasonable estimates can usually be made. Some estimates may be too high, others too low, but with sound estimating practices, they will be very close to the final outcome and will have been charged to the appropriate fiscal years.

26.3 The hallmark of effective financial management in government has always been a balanced current account. This creates a temptation, especially during a period of restraint, to defer loss recognition in order to keep the annual result on current account as favourable as possible. Over the years, some improvements have been made. For example, losses of Crown Corporations are appropriated, in accordance with the Financial Administration Act, in the year in which they are incurred. Other losses have been recognized as a result of my audits such as the substantial write-down of developed land owned by the P.E.I. Housing Corporation.

26.4 In other instances, loss recognition has been deferred. For example:

- As at March 31, 1985 known and probable losses on sales tax receivables could conservatively be estimated at $800,000. Yet, no provision was made at that time resulting in a corresponding $800,000 understatement of the 1984/85 current account deficit. Almost $600,000 was written off in the 1985/86 fiscal year but the remaining $200,000 has not yet been appropriated.
- The P.E.I. Housing Corporation owns undeveloped land with a book value of $1.4 million. There is sufficient evidence to indicate that the market value is well below this. No provision for losses has been made.
- Substantial loan guarantees have been issued in recent years without an appropriate provision for losses that are almost certain to occur.

RECOMMENDATION

26.5 I recommend that Treasury Board review all assets and contingent liabilities at the end of each fiscal year and recommend a special warrant to provide for known and probable losses.

27. LIABILITY INSURANCE

27.1 Premiums for liability insurance have increased sharply in 1985/86 and are expected to increase substantially again in the next year. The increases are the result of large settlements in recent years and pending legal suits demanding astronomical amounts. The situation is far worse in the United States than in Canada and P.E.I., but a local insurance expert advised me recently that in his opinion it is only a matter of time before the same will happen here as well.

27.2 The insurance industry is dominated by large international companies and for better or worse, we will have to pay our share of these settlements.

27.3 The cost of insurance for the Province, schools and hospital combined is expected to rise from about **$500,000** last year to **$1.7 million** next year with less coverage. A review of the Province's experience indicates that premiums paid over the last three years have been about three times the claims paid under the various policies.

27.4 Self insurance, abandoned in the early 70's could begin to make sense again under these circumstances and I am pleased to note that Treasury Board is currently examining the potential for this approach.

28. GRAIN ELEVATORS CORPORATION

28.1 Depressed world market prices for grain, strong competition from private feed mill operators and an increase of on-farm storage and drying facilities, are all factors that have adversely affected the Corporation and resulted in losses of $656,000 over the past five years. Following are some significant data for that period:

	1981	1982	1983	1984	1985
		(in thousands of dollars)			
Sales	$4,516	$3,400	$2,779	$3,566	$2,811
Gross Margin	465	308	360	477	381
Expenses	679	812	714	683	656
Losses	54	251	169	41	141

28.2 In my 1984 report, I recommended a review of the viability of the Corporation. Mr. J. McAnulty of the Canadian Livestock Feed Board, conducted a study and made many recommendations towards the promotion of increases in local grain production and improved management of the elevator operations. The Board of Directors expressed their agreement with many of the proposals; one major exception was the proposal to reduce services at Roseneath and Elmsdale.

28.3 The elevators were built in the seventies at the request of producers who pressed for a producer owned and controlled organization. It is interesting to note that the consultant now recommends that "the island grain producers' co-op or a similar organization representing grain producers must support the Elevators Corporation which was set up for their benefit". This indicates to me that at present the support is not there.

PLANNING AND EVALUATION IN GENERAL

28.4 I have often emphasized, but with little result, the importance of planning and program evaluation as a foundation for accountability and a tool to prevent the waste of funds. The history of the elevator provides some lessons that clearly support my arguments for the importance of planning and evaluation:

- A cheaper construction alternative was available and would have reduced operating costs.
- For large grain users, it is cheaper to store and dry grain on-farm, requiring smaller and fewer elevators.
- In an enterprise such as this, the producers must have a substantial financial stake in the facilities and the operating results. If this is not in place, the enterprise is likely to fail.
- Evaluations should have been done more often and much sooner.

28.5 Treasury Board in response to my recommendations for planning and evaluation over the years has contended that it reviews both during the annual budgetary process. Its efforts are obviously insufficient, as I

have demonstrated on many occasions in reports presented during my tenure as Auditor General. I can only conclude that an audit of these Treasury Board processes is long overdue.

RECOMMENDATIONS

28.6 I recommend that the now dormant Planning Committee of Executive Council be re-activated and instructed to prepare terms of reference for departmental planning and evaluation processes.

28.7 I recommend that Treasury Board review and improve its planning and evaluation assessment conducted during the annual budgetary process.

29. CROP INSURANCE AGENCY

29.1 On several occasions I have, in my annual report, commented on the affairs of the Agency. My recommendations, in the absence of an official policy, have always been guided by the assumption that the Agency should be operated on the general principles of risk insurance, and be self supporting, not only on an overall basis, but also for individual crops. Some years ago, Executive Council in fact issued a directive that the Agency was to become in effect self supporting. In its response to last year's recommendations, Treasury Board rejected my suggestions that each crop should be self supporting. I accept this as policy.

29.2 As of March 31, 1985 the Agency reported an overall surplus of $738,000.

30. LAND DEVELOPMENT CORPORATION

30.1 As at March 31, 1985, the Corporation has invested $17 million in properties. The majority of properties have been leased out and until now, farmers have generally exercised their options to purchase at the agreed price.

30.2 Recently, the General Manager advised me of his concern that in view of the current depressed state of agriculture, land prices could fall below the option prices for a number of leases held by the Corporation. Should this occur, losses on the $17 million investment could be considerable. There are two possible solutions: sell the properties at market value at the lease expiry dates, or continue to lease the properties until prices have recovered.

RECOMMENDATION

30.3 I recommend that the Board of Directors, subject to approval by Executive Council, establish a policy to deal with cases where the options to purchase are not exercised because of low market values.

30.4 As at July 31, 1985, accounts receivable over one year old amounted to $480,000. At March 31, 1985 the provision for losses was $300,000, an increase of $140,000 over the previous year. In 1984/85 bad debt expense was $180,000 versus $62,000 in the previous year.

30.5 Many farmers rely heavily on credit and some have the tendency to enlarge their operations ignoring the cash flow consequences that could arise from high leverage. This could create problems especially in years of poor crops or prices. In view of the bad debts, I wonder if the Corporation's credit policies are not too lenient.

RECOMMENDATION

30.6 I recommend that Treasury Board review the credit standards and collection policies and procedures of the Corporation to ensure that losses are minimized.

30.7 In 1983/84 the Corporation purchased a micro computer. To date, it is only being used for basic accounting functions and not to its full potential. By computerizing major functions such as land inventory and lease and mortgage administration, the Corporation could make much more effective use of the equipment.

RECOMMENDATION

30.8 I recommend that the Corporation take the necessary steps to take full advantage of its micro computer.

31. HOSPITAL SERVICES COMMISSION

31.1 The Hospital Services Commission is the agency through which government funding for hospitals is accomplished. Government has set specific guidelines as to what it will and will not appropriate toward hospital operations. From time to time, the Commission advances money to the hospitals to cover eligible expenditures.

31.2 For several years, the Commission has made non interest bearing advances to the Queen Elizabeth Hospital to cover expenditures falling outside the guidelines. In my opinion, this action jeopardizes appropriation control.

31.3 In order to avoid disclosure of the advance, an artificial transaction was entered into whereby the hospital would repay the advance on March 31 of each fiscal year only to have it renewed the next day by the Commission on April 1st. This year, the advance receivable of $1 million is properly disclosed in the financial statements of the Commission.

RECOMMENDATIONS

31.4 I recommend that Treasury Board exercise tighter control over advances to the Hospital Services Commission to eliminate the possibility of such large advances for ineligible expenditures reoccurring.

31.5 I recommend that Treasury Board ensure that suitable arrangements are made to recover the advance made to the Queen Elizabeth Hospital.

32. PRINCE EDWARD ISLAND DEVELOPMENT AGENCY

32.1 In 1984, the Agency was created by a special Act and absorbed two independant agencies: Industrial Enterprises Incorporated (IEI) and the Market Development Centre.

32.2 In 1979, I performed an audit of IEI at the request of the Minister of Industry . In an appendix to my audit report I provided details on the losses written off from its inception to March 31, 1979. I also reported that a careful review of the loan portfolio indicated that apparent potential losses were at a miminum $3.9 million and that only one thing was certain, that they would go higher.

32.3 I requested the contoller of the Agency to provide me with a summary of write-offs on loans since March 31, 1979. It is published as schedule "F" attached to this report and indicates that a total of $16 million has been written off since I published my schedule in 1979. The losses were entirely with respect to loans made by IEI.

33. GEORGETOWN SHIPYARD INC.

33.1 The Shipyard provides substantial employment in a region that suffers from chronic unemployment. Some subsidization to maintain the jobs of these

skilled workers therefore appears to be warranted, certainly when taking the spin-off benefits to the community into account.

33.3 The equivalent man years of plant labour in the table above do not include administrative staff which are included in the payroll. At peak periods of activity, the number of employees at the Yard has been as high as one hundred.

33.4 The 1985 loss was high compared with losses for prior years. The reasons for the high loss were a slowdown in the repair business as a result of a fire at the wharf and a delay of several months in the start of construction of a new ship due to a faulty design originally submitted by the Shipyard's client and detected in time by the Shipyard. Management is attempting to recover the loss caused by the faulty design.

33.5 Because of the excessive loss in 1985, I have prepared calculations including and excluding that year.
- For 1981/85 the average subsidy was 17 per cent of payroll.
- For 1981/84 the average subsidy was 10 per cent of payroll.

34. PRINCE EDWARD HOTEL AND CONVENTION CENTRE

34.1 It is well known that this facility was constructed with substantial federal and provincial assistance and that the former owner was placed in receivership.

34.2 The ultimate financial ramifications to the Province will not be known until the receiver has wound up his affairs and the hotel, currently owned by a new provincial Crown Corporation, has been sold. In the meantime, I felt that it would be of interest to summarize the cost to date to the province. The unaudited provincial contributions are reported in the schedule below:

Summary of Provincial Contributions
As at December 31, 1985

Land - Net of Federal Share	$ 120,000
Grants - Net of Federal Share	240,000
Tax Credits (Realized to date $350,000)	600,000
Loan Guarantees - Interim Payments	3,352,000
- Expected Final Payment	1,105,000
Sub total of contributions	5,417,000
Purchase price	5,309,000
Grand total	$10,726,000

34.3 At the time of writing this report, the results of operating the facility from the time it was taken over by the crown corporation in September 1985 was not available.

REPORTS ON IMPLEMENTATION OF RECOMMENDATIONS

35. INTRODUCTION

35.1 Many of my audits include recommendations for improvement. I feel it is necessary to follow up on my recommendations to ensure that the underlying problems are receiving the attention they deserve. This section is a summary of past recommendations and the action which has been taken by those responsible for implementation.

35.2 Because my recommendations to Cabinet and to Treasury Board are relatively few in number and deal with policy or government-wide issues of importance, I have been able to list them individually. My comprehensive audit reports on the other hand usually contain a large number of recommendations. These have been dealt with in summary fashion.

35.3 Implementation of recommendations is never quick in government and often takes more than one year following my audit report. Sometimes implementation is postponed for valid reasons. In all cases I intend to follow through until the recommendations have been dealt with in a satisfactory manner. For the convenience of the Public Accounts Committee I have indicated, next to the title, the year of my annual report which contained the recommendations.

36. 1985 RECOMMENDATIONS TO EXECUTIVE COUNCIL

GOVERNMENT GUARANTEES

36.1 I **recommended** to Executive Council that all guarantees be approved by Order-in-Council in accordance with Section 23 of the Financial Administration Act.

36.2 My **comment:** Executive Council approved policies proposed by Treasury Board, which when implemented will deal with the recommendation to my satisfaction. A more detailed report can be found in section 1.

RECORDS MANAGEMENT

36.3 I **recommended** that Executive Council cause a cost effective records management system to be instituted and controlled and that responsibility for such system be assigned to an appropriate authority.

36.4 My **comments:** As of the date of writing this report I have not received a response.

37. 1985 RECOMMENDATIONS TO TREASURY BOARD

RECOMMENDATIONS	REPLY FROM TREASURY BOARD	COMMENTS BY THE AUDITOR GENERAL
Program evaluation	- Treasury Board has no plans at this time to change its present approach.	- This is an issue of continuing disagreement between Treasury Board and the Office of the Auditor General and will be raised again in future years.
Treasury Board Policy Manual	- The binders have now been received and the contents are being prepared for insertion.	- I look forward to eventually receiving a copy of this manual.
Risk management	- Assignment for risk management rests clearly with the Dept. of Transportation & Public Works. In recent weeks a review of methods has commenced. Changes are being contemplated and recommendations arising from the review are expected by April 1, 1986.	- Treasury Board's response to this issue appears to indicate progress. I will be reviewing the recommendations when they are released in April
1984 RECOMMENDATIONS TO TREASURY BOARD		
Planning and Budgeting	- Basically Treasury Board is satisfied with the existing level of planning in government.	- I will continue to comment on planning issues as they become apparent in our audits.
1985 RECOMMENDATIONS TO TREASURY BOARD		
Design and implementation of a system to control recording, payment and discharging of guarantees.	- Treasury Board at a recent meeting approved a draft revised policy and procedures for guarantees. The final policy is now being drafted for immediate implementation.	- I have since received a copy of the approved policy . I believe that if implemented as written, the policy will be effective.

1985 RECOMMENDATIONS TO TREASURY BOARD (cont.)

RECOMMENDATIONS	REPLY FROM TREASURY BOARD	COMMENTS BY AUDITOR GENERAL
The making of an appropriate provision against the loan guarantee for the Hog Commodity Board.	- Treasury Board takes the view that the industry has ample capability to repay these loans and such possible losses are not a consideration.	- In my opinion, the industry's ability to repay these loans has not been demonstrated by performance in the past few years during which the loans have significantly increased. This seems to refute Treasury Board expectations.
Adherence to principles of risk management by the Crop Insurance Agency.	- Treasury Board is of the view that the Agency's management of risk be on an all crops basis in consideration of risks on an individual crop basis. This approach may from time to time result in premiums for an individual crop which do not necessarily reflect the risk for that crop. This is especially true for those crops that are developmental in nature. The important factor, however, is the relationship of total premiums relative to total risks for all crops.	- I understand the position of Treasury Board but I disagree with it. Treasury Board seems to consider this operation to be in part a social program to provide assistance to farmers. With that viewpoint, our arguments lose their validity. We have always considered this to be primarily an insurance business to be run as such.
Consider applying operating surplus of the Crop Insurance Agency against the provincial appropriation for operating expenditures.	- It is Treasury Board's desire that these amounts remain as part of the reserve to cover future crop losses.	- Again, I disagree with the position of Treasury Board. In my opinion the Agency should be self-sufficient.

38. DEPARTMENT OF EDUCATION - 1984

38.1 My audit report was completed in January, 1984. In November 1984, the Paquette report was completed and a Steering Committee was appointed to study implementation of both reports. **Implementation** of my recommendations, concerning certain **key areas** still has not been started: Planning, the Foundation Program, Evaluation and Testing, and Special Education.

39. DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS

GOVERNMENT GARAGE - 1984

39.1 In my 1984 report I published observations on the Government Garage. In 1985, the Department obtained the services of the Ontario Ministry of Transportation and Communications to act as consultants with the specific mandate to assess my findings. Upon completion of the task, the consultant confirmed that my observations and recommendations were correct. I trust that implementation of recommendations will now proceed with despatch, although there will be no quick solution to some major problems: overstaffing and equipment replacement.

40. DEPARTMENT OF HEALTH & SOCIAL SERVICES - 1985

40.1 From discussions with the Deputy Minister and a limited review of documentation made available to me, it became apparent that most recommendations have received serious attention and that they were considered in the context of my audit report.

40.2 Recommendations concerning the following matters have been **implemented** or are **in the process of being implemented:** mandates of four Divisions have been reviewed in the light of the governing legislation; greater efforts are being made to quantify objectives; strategic issues were defined, responsbilities established and a mechanism for monitoring progress put in place; one staff member has been assigned full time to define information needs and to develop appropriate systems; policies for field services staff have been communicated in a policy manual; some progress has been made towards preventing and detecting overpayments; individual client

service plans now emphasize client self sufficiency; procedures for child services have been improved and individual service plans have been prepared; a study was conducted to determine reasons for differentials in per diem cost between provincial and private homes and remedial adjustments are in progress; steps to improve the efficiency of the Community Hygiene Division have been taken and; improvements have been made in human resource management.

40.3 Some **progress** was made toward **implementation of certain recommendations**, but considerably more work is still required in the following areas: Financial Overpayments; Information System Design; Job Creation Program; and Community Hygiene. I will report on progress in these in my next report.

41. HOSPITAL AND HEALTH SERVICES COMMISSIONS - 1985

41.1 I have been advised that the recommendations concerning the following matters are **in the process of being implemented:** a computerized health information system is nearing completion and will realize annual savings of $260,000; changes to the Health Services Payment Act have been proposed for presentation to the 1986 Session of the Legislative Assembly; a planning analyst has been hired and some progress has been made towards strategic and operational planning.

41.2 **Not implemented** are recommendations concerning: employment of a full-time Medical Advisor; strengthening of the internal audit function and; evaluation of the P.E.I. School of Nursing.

41.3 In general, although some progress towards implementation has been made, a more aggressive approach is required.

42. DEPARTMENT OF AGRICULTURE - 1985

42.1 **Department:** In my 1985 report I already commented on the **implementation** of certain recommendations. Since then the Department has begun the **process of implementing** recommendations on performance standards and program evaluation.

42.2 **Extension Branch:** I have been advised of some improvements which include: monthly meetings of Agricultural representatives and supervisors; evaluation of activities and; a goal oriented staff appraisal and evaluation system.
Not implemented: Preparation of service plans for individual farmers to meet their needs and achieve improvements in their operations.

42.3 **Cole Crop Program:** The emphasis is now on improved organization aimed at attaining satisfactory yields and quality for brussels sprouts. Construction of a producer owned processing facility has been postponed until field problems are resolved.

42.4 **Animal Industry Branch:** Management advised me that adequate quality control procedures are now in place; both fluid and industrial dairy farms are now being inspected; shipping regulations are now being enforced; random sampling of shipments will begin on March 1,1986; controls on the Veterinary Assistance Program are improved; improvements in herd health programs have been made and; the costs of the swine inspection program have been reduced.
Not implemented: A sunset review of the Veterinary Assistance Act, program and objectives.

43. PRINCE EDWARD ISLAND ENERGY CORPORATION - 1985

43.1 My audit was completed in 1984. I have been advised that all my recommendations have been **implemented:** long and short-term plans have been prepared; an improved accounting system, providing information for variance analysis and cash flow projections, has been installed and; the Corporation has been partially successful in disposal of surplus energy.

44. DEPARTMENT OF JUSTICE - 1985

44.1 The Deputy Minister advised me that, although he was sympathetic towards my recommendations, he has not implemented them as aggressively as he would have preferred, because of a lack of resources.

44.2 I am satisfied though, that he has dealt with my report in a conscientious manner especially those areas relating to the Young Offenders Program and the Judicial Division. Also administrative matters such as administration of fines are in the **process of being implemented.** I will report further progress in my next report.

44.3 **Not considered for implementation are:** recommendations on planning and on additional information regarding legal aid applicants.

SCHEDULES

ORDINARY EXPENDITURES

APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1984/85	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS FROM 95-04	EXPENDITURES 1985	EXPENDITURES 1984	UNDER EXPENDITURES
AGRICULTURE	$10,605,100	$1,002,102	-	$ -	$11,366,419	$14,479,296	$240,783
LAND DEVELOPMENT CORPORATION	569,100	-	-	-	559,208	543,241	9,892
PEI GRAIN ELEVATORS CORP.	738,500	-	-	-	-	453,022	738,500
COMMUNITY & CULTURAL AFFAIRS	10,291,300	160,800	-	1,600	10,208,723	10,910,772	244,977
LAND USE COMMISSION	92,200	16,000	-	-	104,291	91,567	3,909
HOUSING CORPORATION	2,123,200	-	-	-	1,666,181	1,481,975	457,019
GENERAL EDUCATION	5,920,500	68,900	-	21,200	5,817,590	5,679,573	193,010
EEEMENTARY AND SECONDARY EDUCATION	72,201,300	18,000	-	-	72,212,386	71,646,005	6,914
POST SECONDARY EDUCATION	20,178,300	-	-	-	20,084,574	18,579,925	93,726
VOCATIONAL PROGRAMMING	3,554,400	-	-	-	3,554,400	3,480,300	-
EXECUTIVE COUNCIL	1,383,600	7,300	-	20,000	1,309,030	1,433,349	101,870

ORDINARY EXPENDITURES

	APPROPRIATIONS						
	ORIGINAL APPROPRIATION ACT 1984/85	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS FROM 95-04	EXPENDITURES 1985	EXPENDITURES 1984	UNDER EXPENDITURES
FINANCE AND TOURISM	$ 8,119,500	$ 68,600	$ -	$ 84,300	$ 8,204,450	$ 8,384,814	$ 67,950
INDUSTRY	7,783,900	1,139,215	-	-	8,854,671	6,474,514	68,444
PEI LENDING AUTHORITY	1,091,300	3,500	3,700	-	1,098,404	1,268,566	96
PEI DEVELOPMENT AGENCY	5,881,600	1,166,100	-	-	6,918,536	8,800,060	129,164
HEALTH & SOCIAL SERVICES	62,630,300	500,000	-	172,200	62,715,922	60,398,667	586,578
ADDICTION SERVICES	2,727,900	-	-	800	2,699,684	2,851,020	29,016
HOSPITAL SERVICES COMMISSION	62,742,600	-	-	246,900	61,196,006	59,051,359	1,793,494
HEALTH SERVICES COMMISSION	18,498,400	-	82,600	2,900	18,577,375	17,660,777	6,525
ENERGY & FORESTRY	6,135,500	160,000	-	266,000	6,266,575	5,569,389	294,925
ENERGY CORPORATION	928,000	209,500	-	-	1,110,163	907,948	27,337
JUSTICE & ATTORNEY GENERAL	9,598,300	71,301	-	3,700	9,240,601	8,698,751	432,700

ORDINARY EXPENDITURES

APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1984/85	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	TRANSFERS FROM 95-04	EXPENDITURES 1985	EXPENDITURES 1984	UNDER EXPENDITURES
FISHERIES & LABOUR	$ 2,544,500	$ 304,000	$ -	$ 200,000	$ 2,827,719	$ 4,998,092	$ 220,781
LEGISLATIVE ASSEMBLY	1,170,700	8,200	$ 45,330	24,100	1,248,261	1,211,047	69
TRANSPORTATION & PUBLIC WORKS	41,163,600	1,194,473	485,684	178,000	42,921,827	39,710,579	99,930
OTHER CURRENT EXPENDITURES							
AUDITOR GENERAL	789,300	-	-	(3,700)	769,280	708,507	16,320
CIVIL SERVICE COMMISSION	711,400	-	10,715	(800)	721,201	708,561	114
GENERAL GOVERNMENT	17,451,100	162,940	-	(1,215,100)	6,766,153	5,820,997	9,632,787
LOAN GUARANTEE PAYMENT	-	-	4,125,000	-	3,351,831	-	773,169
TREASURY BOARD	415,400	-	-	(2,100)	398,025	366,770	15,275
GEORGETOWN SHIPYARD	-	-	688,300	-	688,284	293,768	16
COUNCIL OF MARITIME PREMIERS	637,000	-	-	-	635,500	653,200	1,500
DEBT CHARGES	61,622,900	-	-	-	60,354,926	55,087,855	1,267,974
	$440,300,700	$ 6,260,931	$5,441,329	-	$434,448,196	$418,404,266	$17,554,764

CAPITAL EXPENDITURES

APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1984/85	SUPPLEMENTARY APPROPRIATION ACT	INCREASES BY ORDER-IN-COUNCIL	EXPENDITURES 1985	EXPENDITURES 1984	UNDER EXPENDITURES
TRANSPORTATION & PUBLIC WORKS	$23,867,600	$3,297,529	-	$23,521,245	$15,406,007	$3,643,884
EDUCATION - GENERAL	55,000	-	-	53,074	-	1,926
ENERGY & FORESTRY	-	58,750	-	11,825	-	46,925
	$23,922,600	$3,356,279	-	$23,586,144	$15,406,007	$3,692,735

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 1 of 12
	D E P A R T M E N T O F A G R I C U L T U R E	
623/84	HOG STABILIZATION - GRANT Estimated requirement for 2nd quarter of 1984.	$ 330,000
886/84	HOG STABILIZATION - GRANT Estimated requirement for 3rd quarter of 1984.	95,162
36/85	HOG STABILIZATION INTEREST ACCOUNT	100,000
	HOG MARKETING TRANSPORTATION Interest on loan outstanding. Additional request to cover increase in hog shipments.	15,000
56/85	HOG STABILIZATION - GRANT	380,000
	PLANT INDUSTRY SERVICES - LIMESTONE INCENTIVE Requirement for stabilization payments for 4th quarter of 1984. Increase in lime subsidy due to late fall activity.	70,000
781/84	RURAL DEVELOPMENT - AGRICULTURE EXTENSION PROGRAM Financial management courses for farm families.	11,940
	TOTAL	**$1,002,102**
	D E P T. O F C O M M U N I T Y & C U L T U R A L A F F A I R S	
729/84	P.E.I. MUSEUM AND HERITAGE FOUNDATION To retire mortgage of Holman Homestead.	$ 35,000
995/84	TRAINING ASSISTANCE PROGRAM To fund study of museum workers. Administration 1,000 Professional Services 9,000 Travel 3,000 (100% refundable from National Museums of Canada)	13,000
37/85	P.E.I. MUSEUM AND HERITAGE FOUNDATION To cover the cost of creating classified positions.	47,500

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 2 of 12
57/85	CULTURAL AFFAIRS - CANADIAN HERITAGE FESTIVAL	37,900
	Advance to cover cost of festival.	
	Administration 7,800	
	Materials and Supplies 5,100	
	Professional Services 8,000	
	Travel 17,000	
	(97% federally funded project)	
932/84	BUILDING AND DEVELOPMENT SERVICES -	
	DERELICT VEHICLE PROGRAM	15,000
	To provide for an extension of the 1984-1985 program.	
	Material and Supplies 2,000	
	Professional Services 10,000	
	Salaries 3,000	
534/84	ENVIRONMENTAL AND TECHNICAL SERVICES -	
	WATER RESOURCES	12,400
	Extension of program to test pesticide levels in water wells.	
	Salaries 8,400	
	Travel 4,000	
	(Cost shared with Federal Government)	
	TOTAL	**$ 160,800**

L A N D U S E C O M M I S S I O N

39/85	LAND USE COMMISSION	$ 16,000
	Administration 500	
	Professional Services 8,500	
	Salaries 5,000	
	Travel 2,000	
	Additional costs re Canadian Tire Store	
	TOTAL	**$ 16,000**

D E P A R T M E N T O F E D U C A T I O N

38/85	GENERAL EDUCATION - LIBRARIES, BOOKMOBILES	$ 8,000
	ADVISORY COUNCIL ON THE STATUS OF WOMEN	3,800
	To cover repair costs of old bus due to delay in obtaining new bus.	
	To cover additional requirements for Status of Women.	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 3 of 12
690/84	GENERAL EDUCATION - EDUCATIONAL SERVICES MINORITY AND SECOND LANGUAGE GRANTS To fund French language course at UPEI. (100% federally funded)	55,000
730/84	ADVISORY COUNCIL ON THE STATUS OF WOMEN Increased costs of attending regional meetings.	2,100
	TOTAL	**$ 68,900**
730/84	ELEMENTARY AND SECONDARY EDUCATION SCHOOL SYSTEM REVIEW COMMISSION To provide for additional costs of the commission. Administration 500 Equipment 200 Salaries 6,300	7,000
58/85	SCHOOL SYSTEM REVIEW COMMISSION To provide for additional costs of the commission. Administration 210 Materials and Supplies 248 Professional Services 4,521 Salaries 3,021 Travel 3,000	11,000
	TOTAL	**$ 18,000**
	E X E C U T I V E C O U N C I L	
67/85	EXECUTIVE COUNCIL - INTERNATIONAL YEAR OF THE YOUTH Request to provide funds for February and March 1985 for Youth Ambassador. Salaries 6,500 Travel 500 Administration 300	$ 7,300
	TOTAL	**$ 7,300**

LIST OF INCREASES TO APPROPRIATIONS

D E P A R T M E N T O F F I N A N C E & T O U R I S M

59/85	FINANCE BRANCH - PURCHASING - Salaries	$ 5,100
	- Travel	1,000
	COMPUTER SERVICES - DATA ENTRY - Salaries	20,000
	To provide for system changes in the Purchasing Division. To provide for Computer Services' salaries relating to temporary data entry to be billed to other departments.	
691/84	TOURISM BRANCH - COMMUNICATION	42,500
	To provide for costs related to increased number of written enquiries.	
	TOTAL	**$ 68,600**

P. E. I. L E N D I N G A U T H O R I T Y

782/84	NEW EQUIPMENT	$ 3,500
	To replace office dividers.	
452/85	PROVISION FOR DOUBTFUL ACCOUNTS	3,700
	Original provision was insufficient.	
	TOTAL	**$ 7,200**

D E P A R T M E N T O F I N D U S T R Y

996/84	DEPARTMENT MANAGEMENT-LOAN GUARANTEE WRITE-OFF	$ 138,400
	(Write-off re Wood Corporation bank loan)	
	DEPARTMENT MANAGEMENT-INDUSTRIAL PROSPECTING AND PROMOTION	30,000
	(Grant to Wood Corporation to explore alternative funding mechanisms)	
	Manpower training	40,000
	(To provide for part-time training courses for women) (100% federally funded.)	
852/84	INDUSTRIAL DEVELOPMENT - PROSPECTING INCENTIVES	248,000
	Financial assistance to Cavendish Farms for capital additions and new product promotion and development.	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 5 of 12
692/84	COMMUNITY ECONOMIC DEVELOPMENT - EVANGELINE REGIONAL SERVICES CENTRE - EQUIPMENT Funds to purchase new typewriter.	1,600
490/84	HUMAN RESOURCE DEVELOPMENT -EMPLOYMENT DEVELOPMENT (YOUTH DEVELOPMENT) Funding for 50 additional student positions. Wages 95,200 U.I.C. 2,300 C.P.P. 1,500	99,000
868/84	HUMAN RESOURCE DEVELOPMENT - ADULT AND CONTINUING EDUCATION - MANPOWER (Institutional training) Funds for job training (100% reimbursed by Federal Government)	97,600
26/85	HUMAN RESOURCE DEVELOPMENT - MANPOWER TRAINING To provide an additional course in English language for refugees in the Charlottetown area. (100% reimbursed by Federal Government)	35,000
560/84	SKILLS GROWTH FUND PROJECT (Project to be 100% federally funded)	449,615
	TOTAL	**$1,139,215**

P. E. I. D E V E L O P M E N T A G E N C Y

853/84	GENERAL ADMINISTRATION To cover costs resulting from re-organization of I.E.I. & M.D.C. Administration 37,500 Salaries 28,700 New Equipment 14,600 Travel 7,200	$ 88,000
	PLANNING To cover cost of establishing a planning division. Administration 75,000 Salaries 50,800 Travel 20,800	146,600

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 6 of 12
853/84	INTEREST AND PROPERTY To provide for Paderno restructuring.	196,000
	Preventure Fund	10,000
	Small Business Development Corporation	75,000
	Venture Fund Funding of new development assistance initiatives.	210,000
	Meat Packing Industry Assistance Funding for boxed beef line.	50,000
60/85	ASSISTANCE TO MEAT PACKING INDUSTRY To cover underestimate of operating costs of Garden Province Meats.	290,500
705/84	SEAWEEDS STRATEGY To provide for additional funding needs.	100,000
	TOTAL	**$1,166,100**

D E P A R T M E N T O F H E A L T H & S O C I A L S E R V I C E S

68/85	FIELD SERVICES REGION 3 - CHARLOTTETOWN		
	- Special Needs		$ 45,400
	- Cash and Material Benefits To provide for budget shortfall		396,000
	Extended Care Division-Private Nursing Homes To cover increases in per diem rates.		58,600
	Sacred Heart Home	24,000	
	Livingston & MacArthur Nursing Home	25,000	
	Prince County Nursing Home	9,600	
	TOTAL		**$ 500,000**

H E A L T H S E R V I C E S C O M M I S S I O N

453/85	HEALTH SERVICES COMMISSION 1984/85 deficit	$ 82,600
	TOTAL	**$ 82,600**

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 7 of 12
	D E P A R T M E N T O F E N E R G Y A N D F O R E S T R Y	
25/85	DEPARTMENTAL MANAGEMENT-PROFESSIONAL SERVICES Additional costs of government's involvement with Public Utilities Commission.	$ 52,000
606/84	FORESTRY BRANCH - PROFESSIONAL SERVICES To cover budget shortfall.	108,000
	TOTAL	**$ 160,000**
	P. E. I. E N E R G Y C O R P O R A T I O N	
559/84	JOB CREATION PROGRAM Request to double employment of program. Salaries 165,200 Equipment 1,000 Materials & Supplies 32,100 Professional Services 7,200 Travel 4,000	$ 209,500
	TOTAL	**$ 209,500**
	D E P A R T M E N T O F J U S T I C E	
519/84	CONSUMER SERVICES To cover costs associated with transfer of program from Community & Cultural Affairs. Salaries 68,705 Administration 3 Materials and Supplies 600 Travel 1,993	$ 71,301
	TOTAL	**$ 71,301**
	D E P A R T M E N T O F F I S H E R I E S A N D L A B O U R	
535/84	FISHERIES BRANCH EXTENSION Funding for P.E.I. Fisherman's Association	$ 30,000

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 8 of 12
489/84	SEAWEED MARKET STABILIZATION PROGRAM Cost to purchase dry and wet seaweed in spring of 1984.	$ 91,000
731/84	SEAWEED MARKET STABILIZATION PROGRAM Cost of purchasing and processing seaweed in 1984 fall season.	183,000
	TOTAL	$ 304,000

L E G I S L A T I V E A S S E M B L Y

869/84	LEGISLATIVE SERVICES Cost to host meeting of Canadian Council of Public Accounts Committee. Administration 6,810 Materials and Supplies 240 Professional Services 400 Travel 750	$ 8,200
263/85	LEGISLATIVE SERVICES - SALARIES To cover extended session.	24,640
	ELECTIONS - PROFESSIONAL SERVICES Cost of 4th Kings by-election.	20,590
454/85	MEMBERS - SALARIES Budget shortfall	100
	TOTAL	$ 53,530

D E P T. O F T R A N S P O R T A T I O N & P U B L I C W O R K S

907/84	GENERAL ADMINISTRATION - BAD DEBT EXPENSE Write-off for expenditure which will not be reimbursed by Federal Government.	$ 73,873
	URBAN TRANSPORTATION ASSISTANCE PROGRAM To provide additional funding (100% reimbursed by Federal Government)	18,900
	PAVEMENT MAINTENANCE - MATERIALS Additional funding for liquid asphalt Prince 55,500 Queens 55,500 Kings 51,500	162,500

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 9 of 12
61/85	PAVEMENT MAINTENANCE - MATERIALS & SUPPLIES	16,700
	MECHANICAL BRANCH - GARAGE OPERATIONS	389,500
	Materials and Supplies 21,000	
	Salaries 276,800	
	Travel 2,800	
	Equipment 8,500	
	Indirect Materials & Supplies 79,000	
	Professional Services 1,400	
	Parks and Services Branch - Printing Service	51,500
	Materials & Supplies - Composition 3,000	
	- Press Room 30,000	
	- Photocopy System 18,500	
	To cover shortfalls in budget estimates.	
561/84	HIGHWAY MAINTENANCE BRANCH	105,200
	To expand maintenance workforce of seasonal labourers.	
	Wages - Prince 12,700	
	- Queens 31,600	
	- Kings 25,400	
	Materials & Supplies - Prince 7,100	
	- Queens 14,200	
	- Kings 14,200	
	Parks and Services Branch	27,000
	To expand workforce.	
	Wages - Parks East 20,800	
	- Parks West 6,200	
341/85	MECHANICAL BRANCH - GARAGE OPERATIONS	363,725
	To cover overexpenditures.	
	Materials & Supplies 22,906	
	Salaries 340,819	
732/84	BUILDINGS BRANCH - ENERGY CONSERVATION PILOT PROJECT	43,500
	Cost of project to be offset by grant from P.E.I. Energy Corporation.	
	Salaries 29,500	
	Equipment 10,300	
	Contract Services 900	
	Travel 2,800	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS		SCHEDULE "C" PAGE 10 of 12
536/84	METRIC CONVERSION INFORMATION CENTRE		15,700
	Cost of having metric conversion booth at provincial fairs. (100% federally reimbursed)		
	Wages	10,500	
	Travel	3,500	
	Administration	1,200	
	Materials & Supplies	500	
	URBAN TRANSPORTATION ASSISTANCE PROGRAM		75,900
	Extension of program to 1984/85 year. (100% federally funded.)		
833/84	BUILDINGS BRANCH		14,500
	To cover department's responsibility for property taxes on railway land adjacent to Georgetown Shipyard.		
701/84	GRANT - MILL RIVER PROJECT		112,700
	Provincial share of final settlement in project.		
69/85	HIGHWAY SAFETY BRANCH - SALARIES AND WAGES		87,000
	To cover overexpenditure.		
381/85	GENERAL ADMINISTRATION - SALARIES		60,038
	Highway Maintenance Branch - Sanding and Salting		18,982
	Highway Safety Branch		
	- Promotion of Highway Safety		20,849
	- Registration and Licensing		22,090
	To cover overexpenditures.		
	TOTAL		**$1,680,157**

O T H E R C U R R E N T E X P E N D I T U R E S

290/85	CIVIL SERVICE COMMISSION - SALARIES	$ 10,715
	Additional costs of in-service competitions.	
578/84	GRANTS - MISCELLANEOUS GRANT	50,000
	Papal visit.	
40/85	RELIEF FROM PROPERTY TAXES	90,300
	Grants higher than budgeted.	

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 11 of 12
62/85	CANADIAN PREMIERS' CONFERENCE To cover cost overrun of 1984 Premiers' Conference.	22,640
456/85	PRINCE EDWARD ISLAND CONVENTION CENTRE - LOAN GUARANTEE PAYMENT For payment of guarantee to the Bank of Montreal.	4,125,000
457/85	GEORGETOWN SHIPYARD INCORPORATED 1984/85 operating deficit.	688,300
	TOTAL	**$4,986,955**
DEPT. OF ENERGY AND FORESTRY CAPITAL		
30/85	FIRE TRUCK To replace chassis.	$ 35,100
63/85	FIRE TRUCK To replace tank and pumping unit.	23,650
	TOTAL	**$ 58,750**
DEPT. OF TRANSPORTATION & PUBLIC WORKS CAPITAL		
562/84	HIGHWAYS - RECONSTRUCTION Additional funds to expand survey crews.	$ 33,600
702/84	PARKS - MILL RIVER Cost overruns on park additions.	169,600
733/84	PAVING - ECONOMIC AND REGIONAL DEVELOPMENT AGREEMENT To finance 84/85 Economic and Regional Development Agreement paving projects.	2,727,300
759/84	PAVING PROGRAM Funding to continue upgrading of unpaved roads.	300,000

ORDER-IN-COUNCIL	LIST OF INCREASES TO APPROPRIATIONS	SCHEDULE "C" PAGE 12 of 12
997/84	PARKS - MILL RIVER Additional costs of project.	13,128
537/84	BUILDINGS - MISCELLANEOUS LAND PURCHASES Purchase of land in Cardigan.	3,901
702/84	BUILDINGS - MISCELLANEOUS LAND PURCHASES Purchase of land at Strathgartney Homestead.	50,000
	TOTAL	**$3,297,529**

PROVINCE OF PRINCE EDWARD ISLAND
APPROPRIATIONS

MARCH 31, 1985
LIST OF ESTIMATES NOT FULLY SPENT - BY DIVISION - OVER $50,000

	ESTIMATES	TRANSFERS	ADDITIONAL APPROPRIATIONS	NOT SPENT (OVER $50,000)
Department of Agriculture				
Management Services	$ 2,455,200	$ (39,400)	$ 920,162	$ 73,420
Extension Services	3,531,200	(8,836)	11,940	111,052
P.E.I. Grain Elevators Corporation	738,500	-	-	738,500
Department of Community & Cultural Affairs				
Environmental & Technical Services	1,751,600	(28,796)	12,400	57,661
Sequestration	-	71,301	-	71,301
P.E.I. Housing Corporation - General	2,123,200	(1,700)	-	455,319
Department of Education				
Financial Services	1,193,200	(24,884)	-	119,816
Senior Management	209,900	(11,212)	-	55,494
Department of Education - Post Secondary				
MPHEC and Student Aid	20,178,300	-	-	93,726
Executive Council				
Cabinet Office	619,600	(17,370)	-	66,077
P.E.I. Development Agency				
General Administration	-	511,219	88,000	56,009
Planning Assistance	-	-	146,600	86,990
Sequestration	-	210,000	-	210,000

PROVINCE OF PRINCE EDWARD ISLAND
APPROPRIATIONS

MARCH 31, 1985
LIST OF ESTIMATES NOT FULLY SPENT - BY DIVISION - OVER $50,000

	ESTIMATES	TRANSFERS	ADDITIONAL APPROPRIATIONS	NOT SPENT (OVER $50,000)
Department of Health & Social Services				
Hillsborough Hopsital	$ 5,592,000	$ 196,200	$ -	$ 97,598
Field Services	27,236,100	(948,630)	441,400	137,156
Aging	3,062,800	5,145	58,600	59,319
Hospital Services Commission	62,742,600	246,900	-	1,793,494
Department of Energy & Forestry				
Energy & Mineral Branch	2,951,800	121,080	-	117,390
Forestry Development Agreement	1,674,100	75,000	-	120,208
Department of Justice and Attorney General				
Probation and Family Court Services	1,077,000	(125,898)	-	327,331
Department of Fisheries & Labour				
Fisheries Production Division	831,300	(11,490)	-	169,118
Department of Transportation & Public Works				
Building Branch - Vet College Project	93,900	-	-	93,900
Other Current Expenditures				
General Government	17,410,700	(3,949,000)	162,940	6,884,834
Prince Edward Convention Centre	-	-	4,125,000	773,169
Sequestration	-	2,733,900	-	2,733,900
Debt Charges				
Interest	54,082,100	-	-	1,173,882
Sinking Fund Provision	7,150,300	(10,666)	-	94,091

PROVINCE OF PRINCE EDWARD ISLAND
APPROPRIATIONS

MARCH 31, 1985
LIST OF ESTIMATES NOT FULLY SPENT - BY DIVISION - OVER $50,000

	ESTIMATES	TRANSFERS	ADDITIONAL APPROPRIATIONS	NOT SPENT (OVER $50,000)
Capital				
Department of Transportation & Public Works				
Capital - Highways	$ 21,774,400	$ (319,430)	$3,243,628	$ 3,511,051
Capital - Buildings	2,093,200	319,430	53,901	132,833

ANNUAL REPORT - FINAL DRAFT - ON DISK

PROVINCE OF PRINCE EDWARD ISLAND CONSOLIDATED FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Fiscal Year Ended March 31, 1985

		($000's)
Balance Beginning of Year - Note 1		$ 7,865
Operating Transactions		
- Revenues	$ 433,682	
- Expenditures	(458,034)	
- Net Expenditure	(24,352)	
Deduct:		
- Non-cash items included in net expenditure - **Note 2**	$ 6,304	
- Cash items applicable to other periods - **Note 3**	537	
Used for Operations		(17,511)
Financing Transactions		
Receipts:		
Debenture Proceeds	$ 34,300	
Canada Pension Plan Loans	10,500	
Provincial Deposit Receipts	10,926	
Capital Leases	228	
	$ 55,954	
Payments:		
Net loans to Crown Agencies	$ 12,712	
Alberta Heritage Fund loan repayments	22,000	
Federal loan repayments	337	
	$ 35,049	
Derived from Financing Transactions		20,905
Net increase in Cash and Temporary Investments		3,394
Balance End of Year - Note 1		$ 11,259

Notes

1. Cash and temporary investments:

	1985 ($000's)	1984 ($000's)
Bank advances	$ (5,741)	$ (5,135)
Temporary investments	17,000	13,000
	$ 11,259	$ 7,865

2. Non-cash items included in net expenditure:

	1985 ($000's)
Net increase in accounts receivable	$ (4,140)
Amortization of debenture discount	401
Net increase in accounts payable	7,547
Net increase-accrued interest on deposit receipts	968
Net increase-accrued interest and other liabilities	1,528
	$ 6,304

3. Cash items applicable to other periods:

	1985 ($000's)
Net increase in inventories	$ (148)
Net reduction in prepaid expenses	200
Net reduction in treasury advances	6
Net increase in deferred revenue	479
	$ 537

SCHEDULE "F"

INDUSTRIAL ENTERPRISES INCORPORATED

UNAUDITED SUMMARY OF WRITE-OFFS

March 31, 1979 to March 31, 1985

Name	Type of Business	Amount Advanced	Amount Written Off
Abegweit Bakery	Bakery	$ 171,000	$ 152,352
Alameng Limited	Steel refuse containers	195,200	116,629
Alamagzn Steel Corporation	Steel wheels	35,000	2,941
Belrive Sportswear	Clothing	362,480	804,576
Benner Industries	Skis	5,314,074	3,624,653
Broderna Oddsburg Enterprises Ltd.	Machine Shop	812,430	322,476
C & C Holdings Ltd.	Clothing	646,745	551,824
Calypso Limited	Sunglasses	1,055,400	1,500,836
Center for T.V. Studies Ltd.	Educational Television	126,500	78,953
Cerin Industries Ltd.	Investment Casting	450,250	355,225
Charlottetown Pottery Ltd.	Ceramics	427,625	821,766
Eastern Kings Forestry Products Ltd.	Sawmill	681,000	461,653
Fluid Flow Ltd.	High Pressure Fittings	25,000	35,142
Grewal Die Cast Products Ltd.	Aluminum Castings	2,052,639	4,105,359
Hydraulic Concepts Ltd.	Hydraulically operated products	101,675	41,425
Island Fashions Ltd.	Clothing	250,000	253,248
Island Marble Products Ltd.	Imitation marble products	10,000	14,107
Island Resources Ltd.	Seaweed processor	507,390	461,198
Kinlock Poultry Farm Ltd.	Poultry farm	86,000	3,518
Lady Slipper Mushroom Company Ltd.	Mushroom producer	721,373	695,095
Notsa Engineering (Canada) Ltd.	3-axis measuring device	731,500	516,876
Preci-Tech Ltd.	Machine shop	1,197,000	461,000
Splendor Products Ltd.	Light metal fabrication	68,630	79,844
West Royalty Hydraulics Ltd.	Hydraulic systems	80,932	99,241
102892 Canada Ltd.	Jeans Manufacturers	125,000	144,598
		$16,234,843	$15,704,535

The amount written off is greater than the amount advanced for some companies because the write-off includes operating and receivership costs incurred after these companies became insolvent.

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

FINANCIAL STATEMENTS

MARCH 31, 1984

AND

MARCH 31, 1985

AUDITOR'S REPORT

Honourable Gordon Lank
Minister of Finance and Tourism
Province of Prince Edward Island

I have examined the balance sheets of the Province of Prince Edward Island Civil Service Superannuation Fund as at March 31, 1984 and 1985 and the statements of continuity of fund for the years then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at March 31, 1984 and 1985 and the results of its operations for the years then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

T. Kaptein, C.A.
Auditor General

Charlottetown, Prince Edward Island
March 4, 1986

STATEMENT 1

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

BALANCE SHEETS

AS AT MARCH 31, 1984 AND 1985

ASSETS	1985	1984
Deposit Receipts	$ 3,610,000	$ 1,310,000
Accounts Receivable	797,463	583,675
Accrued Interest	1,690,987	1,328,773
Investments - Note 1	45,194,166	39,280,198
	$51,292,616	$42,502,646

LIABILITIES AND FUND RESERVE

Bank Overdraft	$ 147,223	$ 46,337
Accounts Payable	108,472	94,190
Fund Reserve - Note 2	51,036,921	42,362,119
	$51,292,616	$42,502,646

(Notes 1 and 2 are an integral part of these financial statements.)

STATEMENT 2

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENTS OF CONTINUITY OF FUND

FOR THE YEARS ENDED MARCH 31, 1984 and 1985

	1985	1984
Balance, beginning of year	$42,362,119	$34,892,920
Add:		
Employees' contributions	3,704,148	3,364,077
Employers' contributions	3,704,148	3,364,077
Interest earned	5,494,131	4,506,982
Transfers in - Employers' share	21,331	29,912
- Employees' share	21,331	38,866
Amortization of bond discount	30,278	25,824
Gain on disposal of bonds	-	1,958
	$12,975,367	$11,331,696
Less:		
Pensions paid	3,849,513	3,259,028
Refunds	302,858	385,906
Transfers out - Employers' share	40,253	60,103
- Employees' share	40,253	60,103
Interest on refunds and transfers	51,383	81,566
Safekeeping charges	16,305	15,791
	4,300,565	3,862,497
Balance, end of year	$51,036,921	$42,362,119

(Notes 1 and 2 are an integral part of these financial statements)

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

	1985	1984
1. Investments - par value	$45,590,000	$39,665,000
Less: Unamortized discount	395,834	384,802
	$45,194,166	$39,280,198

The market value of investments at March 31, 1985 was $42,731,611

2. This does not represent the actuarial liability of the Fund. Payments out of the Fund are guaranteed by the Province of Prince Edward Island by Section 5 of the Civil Service Superannuation Act. An Actuarial Valuation Report on the Fund as of March 31, 1982, indicated that there was an unfunded liability of $66 million.